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October 9, 2007

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

Re: Petition of Cartwright Creek, LLC to amend its existing Certificate of Convenience
& Necessity to provide service to the Stillwater Development in Williamson County,
Docket 07-00180

Dear Ms. Standley:

Attached please find Cartwright Creek's responses to majority of the questions in the
October 5, 2007 TRA request for additional information on the above-referenced petition.

We will provide answers to questions 3.a, 3.g, 4, and 8 in the next few days.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Meyer", is written over the printed name.

Bruce Meyer
Vice President, Operations
Cartwright Creek, LLC

cc: William H. Novak

1. **The data response to number 7(a) filed on September 7, 2007 stated that the developer, Eagle Ridge Investments, LLC would be responsible initially for funding any shortfalls in revenues for the Stillwater project and provided a copy of a contract to support the funding. Please provide the most current year-end and interim financial statements including balance sheet, income statement, statement of cash flows and any notes to the financial statements for the developer of the Stillwater project, Eagle Ridge Investments, LLC.**

Response:

Please see the following letter from Eagle Ridge Investments, LLC

EAGLE RIDGE INVESTMENTS, LLC

25701 LAKESHORE BOULEVARD, SUITE 101

EUCLID, OH, 44132

PHONE: (440) 821-9182

FAX: (440) 716-9619

October 8, 2007

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

Petition of Cartwright Creek to amend CCN to provide service to Stillwater Development in Williamson County, Tennessee

Dear Ms. Standley:

The purpose of this letter is to address items number 1, 3d and 3e of your data request dated October 5, 2007.

In regard to item 1, Eagle Ridge Investments is a project specific entity and will not be generating financial statements until December 31st, 2007. The property was purchased and closed in May this year and construction should begin in 2007.

Item 3d, the estimated contributed capital for the Stillwater Development for the land for both the treatment site and irrigation site is one million six hundred four thousand dollars (1,604,000.00).

Lastly in regard to item 3e, Eagle Ridge Investments, LLC has committed to cover the deficiencies for the three year period or until the corresponding number of homes are constructed according to the operation Performa for the Stillwater project.

If any additional information is required for you to complete this request, please do not hesitate to call me at 440-821-9182, or Matt Bryant of Atwell-Hicks at 440-552-7721.

Sincerely,
Eagle Ridge Investments, LLC

D.J. Keehan

D.J. Keehan, Managing Member

2. **In light of the financial status of the current system, please discuss and provide evidence that Cartwright Creek, LLC has the financial and managerial capability to expand its operations.**

Response:

The financial and managerial resources of Sheaffer International will continue to support Cartwright Creek as the operations expand.

In terms of financial capability, in our September 7, 2007 response to TRA's August 24, 2007 data request, question 7c, we described how Sheaffer International has provided \$574,900 of contributed capital to the Cartwright Creek operations. The company has also provided the TRA with a letter of credit in the amount of \$240,000 to guarantee its financial performance and capability. Sheaffer International's balance sheet is included as the response to question 9 in the aforementioned September 7, 2007 submittal.

For management, Cartwright Creek, LLC has assigned Mr. Bruce Meyer as the Vice President of Operations for Cartwright Creek, LLC. Mr. Meyer, Sheaffer's Chief Engineer, is a Licensed Professional Engineer in Tennessee and has recently moved to middle Tennessee to supervise existing and new sites and projects. Mr. Meyer also holds the appropriate Tennessee Wastewater Treatment and Collection System licenses to operate Sheaffer Reclamation and Reuse Systems. As projects such as Waterbridge and Stillwater are constructed and begin to operate, we will hire or contract with additional staff as needed.

The experienced engineering and management staff of Sheaffer International is involved in the day-to-day support of the Cartwright Creek operations. For example, in Sheaffer staff is currently working on the initial phase of the Stillwater wastewater reclamation system. They have also spent significant time evaluating the existing condition of and potential upgrades to the Cartwright Creek system in the Grasslands area.

Sheaffer International is currently working on various phases of 20 projects in 10 states, including a contract to construct and operate a 1,500,000 gallon per day wastewater reclamation and reuse system for a town in Illinois. The commitment for the support of this experienced Sheaffer team will continue as new systems are brought on-line for Cartwright Creek.

3. **To further assist the Authority in analyzing the financial ability of the Company to be a going concern and to be able to serve the Stillwater Development, please respond to the following:**
 - a. **Please provide pro-forma financial statements including balance sheet and income statement for all of CC for the next 5 years. This pro-forma should include all developments (current and potential). Please provide pre-filed testimony attesting to CC being a going concern based on the current status and what financial effect the new territories currently being considered and/or built will have on the overall financial capability going forward.**

Response:

To be provided.

- b. In the Data Response filed on December 17, 2004 in Docket No. 04-00358, the response to # 2 asserted that insurance expense was increasing from \$475 in 2004 to \$6,000 in 2005 to cover extended property insurance coverage to replacement cost, a boiler and machinery policy to cover unexpected breakdowns in critical system machinery with a modest deductible rather than self-insurance through repair expense. The insurance expense, however, was \$900 on the 2006 Annual Report filed with the TRA. In addition, statements from previous data responses in this docket indicate repair expense increased due to costly repairs. Please explain.**

Response:

Sheaffer has put in place a boiler and machinery policy with Cartwright Creek as a named insured. Sheaffer has not charged Cartwright Creek for its portion of the insurance coverage so it does not show on the annual reports filed with the TRA.

The boiler and machinery policy covers catastrophic failures. For example, it would cover a lighting strike that caused major damage to key electrical components of the wastewater treatment system. It does not cover repair and replacement of equipment due to normal wear and tear. The repair expenses described in this docket are caused by normal, albeit, long term use and therefore are not covered by the boiler and machinery policy.

The \$900 expense on the 2006 Annual Report is a general insurance policy on the Cartwright Creek grounds and building. It is for fire, theft, liability, etc.

- c. **The pro-forma submitted in this docket states that insurance expense will be \$7,778. Please explain the difference in the insurance expense for Stillwater and the \$900 expensed for the current CC system.**

Response:

The insurance expense for Stillwater is an estimated amount for the general fire, theft, and liability policy. The actual amount will be determined after the system is designed.

To arrive at an estimate we used the ratio of the respective book values times our current premium of \$1,000.

$$\frac{\$3,500,000 \text{ (Estimate of Stillwater book value)}}{\$450,000 \text{ (Book value of CC existing system)}} \times \$1000 = \$7,778$$

- d. Please provide the estimated contributed capital for the Stillwater Development for the land for both the treatment site and irrigation site as previously requested. What is the total contributed capital for CC from all components including the land?**

Response:

As stated in the letter from the Developer following the response to question 1, the estimated contributed capital for the treatment system and irrigation land is \$1,604,000.

Cartwright Creek will not contribute any capital to the creation of the Stillwater wastewater treatment and reclamation systems.

Cartwright Creek would also like to clarify an item discussed between Cartwright Creek's Bruce Meyer and the TRA's Patsy Fulton in phone conversations on October 9, 2007. In its previously submitted Pro-Forma and capital contributions amounts, Cartwright Creek did not include the capital contribution and maintenance reserve for the grinder pumps required at each house. Ms. Fulton explained that the TRA's policy to include the grinder pumps in both.

Therefore, Cartwright Creek will add the capital contribution to future submittals. The capital contribution is \$4,000 per home x 500 homes = \$2,000,000

The maintenance reserve will be increased to cover the long-term replacement of grinder pumps. Per the pump manufacturer, EOne, utilities should budget for \$55 per pump per year for long-term replacement. This will be reflected in a revised Pro-Forma to be submitted in the next few days.

- e. **Please provide a copy of the agreement from the Developer of Stillwater stating specifically how long the developer will continue to cover the deficiencies. If an agreement does not exist, please provide a statement from the Owner / Developer stating specifically how long the revenue deficiencies will be covered by the Developer. How will CC segregate the revenues and costs for Stillwater from the total costs of CC?**

Response:

The letter from the Developer, Eagle Ridge Investments, LLC, following the response to question 1 includes a statement:

“Lastly in regard to item 3e, Eagle Ridge Investments, LLC has committed to cover the deficiencies for the three year period or until the corresponding number of homes are constructed according to the operation Performa for the Stillwater project.”

Cartwright Creek will account for the costs and revenues of the Stillwater system separately. The Stillwater financials will roll up into the overall summary for Cartwright Creek.

- f. **The Sewer and Wastewater Treatment System Service Agreement as submitted with your Data Response filed September 7, 2007 states that the Owner / Developer will reimburse Cartwright Creek for any revenue deficiencies by funding an Operating Reserve Fund in escrow. The Agreement states that the amount to be placed in this Operating Reserve Fund each year by the Owner will be an estimate of Cartwright Creek's revenue deficiencies based on its operating expenses approved by the TRA for the previous year and the projected service fees to be paid in the coming year. The TRA does not approve expenses outside of a rate case; therefore, please clarify how the agreement will operate.**

Response:

We realize that TRA does not approve expenses outside of a rate case. We more correctly should have stated that the TRA approved tariff rates will be used to estimate revenue during evaluation of the shortfall.

At the beginning of each operating year, the amount placed in the Operating Reserve Fund by the Developer will be determined by estimating the upcoming year's operating expenses (including manpower, utilities, maintenance, bonding, etc.) minus the amount of the expected revenue. The revenue will be determined simply by estimating the number of homes to be occupied times the number of customers at the approved rates. Funds for the Operating Reserve Fund will be used to pay expenses over and above those covered by revenues. At the end of the year, any excess will be applied to the subsequent years Operating Reserve Fund. Any shortfalls will be made up by the Developer.

For the first few years, the amounts placed in the Operating Reserve Fund will be substantial as shown in the Stillwater pro-forma. The amounts will decrease to zero, as greater numbers of homes are occupied and paying monthly wastewater bills.

It is our intention to keep the balance sheet open book for review by both the developer and Cartwright Creek on a regular basis through the year.

- g. Please discuss how each annual expense for a fully built out development identified on Stillwater's Pro-Forma Income Statement (Exhibit 5) was calculated, including all underlying rationale and assumptions.**

Cost justification for the rates should be based on the annual operating costs associated with the new Shaeffer Reclamation and Reuse System, particularly since this system is much different from the current CC System. CC has stated that Shaeffer has built many similar systems; therefore costs should be available.

Response:

Our September 7, 2007 response to question 7.k of TRA's August 24, 2007 Data Request contained two pages of response to a similar question. The second page of that response is a detailed table showing the detailed cost estimates and calculations.

To fully answer the question above, we will combine the above-described detailed table with the previously submitted Pro-Forma.

4. **Number 11 from the data request, filed on August 24, 2007, states to please submit a proposed tariff, including the residential and commercial tap fees and monthly rates that CC proposes for the Stillwater Development. The response included a complete new tariff for CC with all original pages. Please submit only those tariff pages that are reflected in this Docket as revisions to the tariff currently on file for CC, including both residential and commercial rates.**

Response:

We will submit a revised tariff page for Stillwater in the near future. It will be page 2.1 of our existing tariff.

On October 9, 2007, we submitted administrative and text revisions to our existing Cartwright Creek tariff to TRA. Those revisions contained recommendations discussed with TRA's Patsy Fulton on September 24, 2007, including new definitions of Commercial and Residential Customers as requested in the TRA's August 24, 2007 Data Request.

5. **Unlike the current wastewater system approved for Cartwright Creek's Grassland's area, the Stillwater development will be a new Shaeffer Wastewater Reclamation and Reuse facility. The reclaimed water will be used to irrigate the Stillwater Golf Course. Will there be any revenues to CC associated with the reuse of the reclaimed water? If so, what are the estimated annual revenues? If not, why? Will there be additional expenses for the filtration and disinfection? If so, please detail the estimated annual expenses.**

Response:

There is no current plan to charge the golf course development for the reclaimed water. Our intent is to encourage reuse of reclaimed water. A typical golf course uses 300,000 gallons/day for summer irrigation. The build out of the 500 home Stillwater development is projected to be five to six years and, at 300 gallons/day per home maximum, it will take a number of years for there to be a significant amount of reclaimed effluent.

The Sheaffer System proposed for Stillwater includes filtration and UV disinfection equipment that are capable of treating Sheaffer System effluent to typical golf course reuse standards. The capital and operating cost of this equipment is included in the costs presented to TRA for the Stillwater project, including the Stillwater Pro-forma. During the detailed design of the system, we will be evaluating any site-specific requirements for the Stillwater golf course as well as its effect on capital and operating expenses.

6. Please provide cost justification for the escrow amount of \$7.03 per customer per month for the Stillwater Development.

Response:

The escrow amount is based upon the following:

Collection System:

Common area piping, pump station (excluding concrete, excavation) = \$690,000 est. cost
Estimate 25% replaced/repared over 25 years:

$$(\$690,000 \times 0.25)/25 = \$6900 \text{ annually reserved}$$

Wastewater Reclamation System (excluding concrete, excavation, etc.) = \$1,000,000 est.
Estimated range of 3.53% replacement/depreciation allowance annually

$$\$1,000,000 \times .0353 = \$35,300 \text{ annually reserved}$$

$$\text{Total annual reserve} = \$6,900 + \$35,300 = \$42,200$$

$$\$42,200 / 500 \text{ customers} / 12 \text{ months} = \$7.03$$

7. **The Data Response # 14 provided that a back-up bond would be required of CC for the Stillwater Development of \$2,500,000 for Williamson County. According to the newly proposed tariff, the bond cost of \$8.33 monthly is to be passed thru to the consumers. Please provide a copy of the “back-up” bond and documentation of the associated cost of the bond.**

Response:

Per Williamson County requirements, the actual back-up bond (Williamson County’s terminology) amount is not established and the bond is not executed until the approval of the Final Plat is sought from the County Planning Commission. This will occur at the conclusion of construction of the wastewater system.

The back-up bond amount is finalized by the County’s engineering firm and is based upon 150% of the “replacement costs” for the system. The County’s engineer has stated that the Sheaffer System will not require back-up bonding for earthwork, a major component of this deep cell lagoon based system cost. We also believe that when the system is fully designed and presented, there will be other components that will not require coverage by the back-up bond. Therefore, we feel we have conservatively estimated the amount and user cost of the bond amount as follows:

Estimated bond amount: \$2,500,000

Cost of security (percent): 2%

Number of customers: 500

$\$2,500,000 \times 0.02 = \$50,000$

$\$50,000 / 500 \text{ customers} / 12 \text{ months} = \$8.33/\text{customer/month}$

8. **Please provide a letter from the Mayor of Williamson County indicating that Williamson County is unable or unwilling to provide service to the affected area.**

Response:

The letter has been requested from Williamson County and will be provided.

9. **Your previous Data Response indicated that CC was to apply for its TDEC permit in late October. Is CC still on schedule to submit this application? If not, please state when CC will submit the application to TDEC.**

Response:

As stated in the previous Data Response, we are still on schedule to submit the TDEC permit by the end of October.