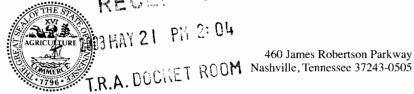
TENNESSEE REGULATORY AUTHORITY



460 James Robertson Parkway

May 21, 2008

H. LaDon Baltimore Farrar & Bates, L.L.P. 211 Seventh Avenue North, Suite 420 Nashville, TN 37219

RE: Docket No. 08-00051 - PETITION OF HICKORY STAR WATER COMPANY, L.L.C. FOR APPROVAL OF ADJUSTMENT OF ITS RATES AND CHARGES

Dear Mr. Baltimore:

Please provide the information as outlined on the attached First Discovery Request. Pursuant to TRA Rule1220-1-1-.03(4), submit either an electronic response along with an original and four (4) written copies or an original written response and thirteen (13) copies.

Please note that the requisite number of written copies of all requested information must be provided to the Docket Manager and electronic responses, if filed, must be in .pdf format. The Excel files requested on CD are to be provided to Party Staff (Paul Greene or Ron Graham).

All information should be provided no later than 2 PM, Wednesday, June 4, 2008. Should you have questions regarding the attached request, please contact Paul Greene at (615) 741-2904 (extension 156) or Ron Graham (extension 164).

Sincerely,

Paul Greene

Utility Consultant

Attachment (1)

First Discovery Request Dated May 21, 2008

GENERAL

- 1. Party Staff has requested Company responses in two weeks. If the Company needs additional time to prepare complete responses, Party Staff stands ready to grant an extension if the Company will provide written notice to the docket file that the Company and the Party Staff mutually agree to an extension of the deadline until such time as the parties can file an Agreed Settlement or in the alternative prepare the case for Hearing. TRA Rule 1220-4-7-.03(2) provides for an extension of the 180-day notification by mutual consent of both the Company and the TRA Staff. Please advise Paul Greene of your desire by phone as soon as practical.
- 2. Given that rate base is small, would the Company agree to consider a settlement based upon normalized actual 2007 O & M expenses grown by a factor of 3% per year for 2008, 2009 and 2010 for a zero margin (total revenues would equal total expenses)? This method was accepted by the Authority in the Condo Villas Agreed Settlement, Docket 07-00228 and is being used in negotiations with another Company seeking rate relief.
- 3. Explain why some water customers do not have sewer.
- 4. Do all sewer customers have water service?
- 5. Are any seasonal discounts offered by the Company?
- 6. Explain how sewer is metered or what is used as a proxy for billing sewer.
- 7. Provide copies of all debt agreements along with the initial principle balance and interest rate.
- 8. Does the Company have a general ledger? If yes, can this be made available for review by Party Staff if necessary?
- 9. Does the Company expect to add any customers to the existing system through 2010? If so, how many, per month, each month through 2010? If a substantial number of new customers are added, does the Company agree to contact the Chief of the Utilities Division of the Tennessee Regulatory Authority to review the Company's existing rates and make changes if necessary?
- 10. Do the owners of the Company have any personal, business or contractual relationship with the existing customers other than providing water and/or sewer service?

REVENUES

- 11. Provide an excel spreadsheet via CD showing the total number of water and sewer customers separately at month end from 12/31/06 through 5/31/08.
- 12. Provide an excel spreadsheet via CD showing the number of water and sewer customers separately at month end from 12/31/06 through 5/31/08 that were billed only the minimum charge.
- 13. Provide an excel spreadsheet with working formulas via CD showing the number of gallons of water billed to end users by month by volumetric rate band from January 2006 through May 2008. Your response should show totals by rate band for each year.
- 14. Provide an excel spreadsheet with working formulas via CD showing the monthly amount of revenue from tap fees or any other source other than the minimum charge or volumetric use separately by source and total for each month from January 2006 through May 2008. Also provide monthly projections of "other" revenue by month through 2010 and provide a narrative explaining your projections. Each "other" revenue should be totaled by year and each month's total "other" revenues should be calculated.

EXPENSES

- 15. Provide an excel spreadsheet via CD showing the total expense for each of the following categories by month from January 2006 through May 2008. Each expense should be totaled by year and each month's total expenses should be calculated.
 - a. Salaries and Wages
 - b. Purchased Water
 - c. Contractual Expenses
 - d. Mail
 - e. Bad Debt Expense
 - f. Miscellaneous Expenses
 - g. Purchased Sewage Treatment
- 16. Provide monthly bills for purchased water included in sub-part b above.
- 17. Provide an excel spreadsheet via CD showing a reconciliation of the amount of water purchased each month from January 2006 through May 2008 to the amount of water billed to end-users. Explain the difference between all variances shown on the requested schedule.
- 18. Provide bills to support <u>all</u> contractual expenses from January 2006 through May 2008 with an explanation of the nature of each expense.
- 19. Provide bills to support <u>all</u> Purchased Sewage expenses from January 2006 through May 2008.

- 20. Provide the Company's estimated rate case expense for this proceeding assuming the case is settled. Would the Company agree to monthly amortization of rate case expense from the month the new rates go into effect through 2010?
- 21. Provide the amount and description of each non-recurring expense incurred from January 2006 through May 2008.
- 22. Provide copies of all state and other tax returns (Excise, Franchise, Property, TRA Inspection Fee, Other taxes) for tax expenses recorded during 2006 and 2007. You do not need to provide information regarding sales taxes since these are treated as a pass through.
- 23. Provide the depreciation rate used for each plant account.

RATE BASE

- 24. Provide an excel spreadsheet with working formulas via CD showing the Plant balance by account at May 31, 2008 as well as the associated accumulated depreciation balance.
- 25. Provide a description of the age and condition of the Company's plant.
- 26. If the plant were to fail or require extraordinary repairs, does the Company or the owners have the means to finance the necessary plant repairs or replacement?
- 27. Does the Company plan any plant expansions or replacements through December 2010? If so, provide an excel spreadsheet with working formulas via CD showing the estimated cost by month. Your response must include an explanation of each plant addition/replacement and how the Company will fund plant additions/replacements.
- 28. Would the Company agree to the establishment of an escrow account to be funded by monthly depreciation (a non cash expense) to pay for future plant additions/replacements? If so, would the Company further agree to establish a separate bank account earning a market rate of interest to segregate and safeguard such funds and maintain invoices for all such withdrawals from such account?