

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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IN RE:)
)
PETITION OF HICKORY STAR) DOCKET NO. 08-00051
WATER COMPANY, L.L.C. FOR)
APPROVAL OF ADJUSTMENT OF ITS)
RATES AND CHARGES)

PROPOSED SETTLEMENT AGREEMENT

Hickory Star Water Company, L.L.C. ("Hickory Star" or "Company") and Staff of Tennessee Regulatory Authority ("TRA Staff" or "Staff") (collectively, the "Parties") respectfully submit this Proposed Settlement Agreement to the Tennessee Regulatory Authority ("TRA" or "Authority") for approval for the purposes of settling this docket. The parties agree and stipulate as follows:

1. Full name and address of the principal place of business of the petitioner is:

Hickory Star Water Company, L.L.C.
1360 Hickory Star Road
Maynardville, TN 37807-3218
2. Hickory Star Water is incorporated under the laws of the State of Delaware and was authorized to do business in the State of Tennessee by the Secretary of State on August 4, 1998. Hickory Star Water is a public utility pursuant to the laws of the State of Tennessee and its public utility operations are subject to the jurisdiction of the Authority. Hickory Star Water was granted its original certificate of convenience and necessity by the Authority on November 24, 1999 in Docket No. 99-00485.

3. On April 7, 2008, Hickory Star filed a *Petition* for approval to adjust its water and sewer rates. Exhibit 8 of the *Petition* shows the existing and current rates.

4. On April 21, 2008, the voting panel of TRA Directors assigned to this docket voted unanimously to appoint the Authority's General Counsel or his designee to act as the Hearing Officer in this proceeding for the purposes of hearing preliminary matters prior to the Hearing, setting a procedural schedule, and preparing the matter for hearing before the panel. As of the date of this Proposed Settlement Agreement, no party has filed an intervention in this docket.

5. On May 19, 2008, the voting panel of TRA Directors assigned to this docket voted unanimously to approve Hickory Star's *Motion for Interim Emergency Relief* filed on May 9, 2008. The emergency rates applied only to water as follows:

WATER

Minimum 2,000 Gallons:	\$42.99 per month
Next 8,000 Gallons:	\$9.00 / 1,000 Gallons per month
Next 10,000 Gallons:	\$8.14 / 1,000 Gallons per month
Next 30,000 Gallons:	\$7.37 / 1,000 Gallons per month
All over 50,000 Gallons:	\$6.85 / 1,000 Gallons per month

6. The parties to this Proposed Settlement Agreement have exchanged information and engaged in discussions to resolve all known disputed issues in this docket. As a result of these efforts, the parties have agreed to settle the issues pending in this docket and have agreed to the requested rates as shown below.

7. The rates in this settlement are based upon August 2008 customer levels and 2007 test year volumes at current rates and 2007 normalized test year expenses grown at a fair and

reasonable agreed upon rate of 3% per year for the attrition years 2009, 2010 and 2011, with a water loss percentage of 15%. Exhibit 1 demonstrates the Company's needed revenue requirement.

8. The parties agree that the settlement rates as listed are fair and reasonable and will cover projected operating costs excluding any applicable excise or income taxes for the years 2009, 2010 and 2011 with no margin. Therefore, no rate of return will be established. Exhibit 2 demonstrates the revenue generated by the settlement rates.

WATER

Minimum 2,000 Gallons:	\$43.45 per month
Next 8,000 Gallons:	\$9.00 / 1,000 Gallons per month
Next 10,000 Gallons:	\$8.14 / 1,000 Gallons per month
Next 30,000 Gallons:	\$7.37 / 1,000 Gallons per month
All over 50,000 Gallons:	\$6.85 / 1,000 Gallons per month

SEWER

Minimum 2,000 Gallons:	\$17.73 per month
Next 8,000 Gallons:	\$7.39 / 1,000 Gallons per month
Over 10,000 Gallons:	\$6.62 / 1,000 Gallons per month
Hickory Star Marina	\$834.00 per month

9. While the parties have agreed that it is anticipated that the rates determined in this Proposed Settlement Agreement will be sufficient to cover operating costs through 2011 nothing in this Proposed Settlement Agreement shall prevent either party from seeking rate adjustments prior to the end of 2011 if such action is warranted.

10. Hickory Star agrees to contact the Chief of the Utilities Division of the Authority to review the Company's rates at such time as 100 new customers are added to the total customer level existing at August 31, 2008.

11. The parties agree that this Proposed Settlement Agreement is subject to the approval of the Directors of the TRA.

12. Upon Authority approval, the Company shall publish customer notice pursuant to TRA Rule 1220-4-1-.05 and file a tariff reflecting the settlement rates. The tariff shall include a copy of the public notice and be effective thirty (30) days after the published notice.

13. If questions should be asked by any person, including a TRA Director, who is not a party to this settlement, the parties may present testimony and exhibits; if necessary, provided however, such cross examination shall not be inconsistent with this stipulation.

14. 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 or subsequent approval by the Authority shall not have any precedential effect in any future proceeding or binding on any parties except to the limited extent necessary to implement the provisions hereof.

15. In the event that the Company merges, consolidates with or transfers its assets to another corporation or entity, its successor shall remain responsible for fully complying with the terms and conditions of this Proposed Settlement Agreement. The Company shall notify the TRA no later than ten (10) days prior to the completion of such transaction.

16. The parties will retain the right to terminate this Proposed Settlement Agreement by providing written notice. Any of the signatories to this Proposed Settlement Agreement shall

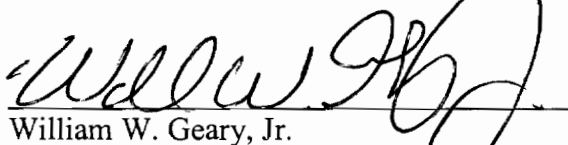
give notice within ten (10) business days of exercising its rights to terminate this Proposed Settlement Agreement; provided however, that the signatories to this Proposed Settlement Agreement could elect to revise and modify this Proposed Settlement Agreement. Should this Proposed Settlement Agreement be terminated by either party, 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.

17. If the TRA does not accept the Proposed Settlement Agreement in whole, the parties are not bound by any position set forth in this Proposed Settlement Agreement. In the event that Authority 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 Authority, any of the signatories to this Proposed Settlement Agreement would be entitled to give notice of exercising its rights 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 modification(s) required by, or issues raised by the Authority. 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.

18. The parties agree to implement the terms of this Proposed Settlement Agreement in good faith and with due diligence.

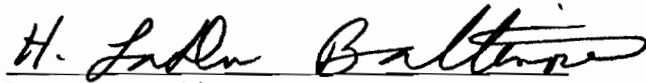
19. This agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding conflict of law provisions.

FOR HICKORY STAR WATER COMPANY, L.L.C.:



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Date: 10/1/08



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Date: 10/2/2008

**FOR STAFF OF THE TENNESSEE
REGULATORY AUTHORITY**



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Date: 10/7/08

Hickory Star
Expenses - Excluding Income Taxes
08-00051

Exhibit 1

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Expenses Per Exhibit II "Certain Expenses"	\$105,324				
Less					
Legal attributable to this rate case	-3,386				
Reduced for 15% Water Loss (Actual 30%)	-6,646 A/				
Adjusted Expenses	\$95,292	\$98,151	\$101,096	\$104,129	\$107,252
Add: Requested Mgt. Fee \$500/mo.					
Amortization of Rate Case Expense			3,333	3,333	3,334
Total per year			104,429	107,462	110,586
Total 09 - 11					322,477
Annual Average Revenue Requirement					\$ 107,492

A/ 2007 Annual Report, p. W-3 Purchased Water reduced by 15%.

Hickory Star
Revenues
08-00051

Exhibit 2

Percent increase in base rates	1.182 %		
Annual Average Revenue Requirement			\$107,492
Excess Water Revenue at Proposed Rates			22,713
Excess Sewer Revenue at Proposed Rates			0
			<u>\$84,779</u>
Current Customer and Base Rates			
Water Customers	123		
Water Base Rate	36.76	54,258	\$54,258
Sewer Customers	50		
Sewer Base Rate	15.00	9,000	9,000
Hickory Star (Laundry and Marina) 2007	8,465		<u>8,465</u>
			\$13,056
Required Increase in Base Rates			
Water Customers	123		
Water Base Rate Increase	6.69	9,875	9,875
Sewer Customers	50		
Sewer Base Rate Increase	2.73	1,638	1,638
Hickory Star	1,541		1,541
			<u>\$3</u>
New Water Base Rate	\$43.45	36.76	0.153976311
New Sewer Base Rate	\$17.73	15	0.153976311
Hickory Star per month	10,006	\$833.80	8465 0.153976311