

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

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**IN RE:**

**PETITION OF HC SEWAGE TREATMENT, LLC FOR  
APPROVAL OF ADJUSTMENT OF ITS RATES AND  
CHARGES**

)  
)  
)  
) **DOCKET NO. 08-00126**  
)  
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**PROPOSED SETTLEMENT AGREEMENT**

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HC Sewage Treatment, LLC (“HC Sewage” or “Company”) and Party 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. The HC Sewage is a limited liability company organized under the laws of the State of Tennessee and is engaged in the business of providing sewer services to two commercial customers in Tennessee. HC Sewage 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 TRA.
2. The street address of HC Sewage’s principal place of business is 4718 Lake Park Drive, Suite 3, Johnson City, Tennessee 37615.
3. HC Sewage was created to build a sewage treatment facility in Hampton, Carter County, Tennessee.
4. The Company was granted a Certificate of Public Convenience and Necessity by Authority Order dated January 2, 2002 in Docket No. 00-00667.

5. On July 18, 2008, HC Sewage filed a petition for approval of adjustment of its rates and charges. HC Sewage is seeking approval by the TRA to increase its current rates which have been in effect since 2000.

6. The parties have engaged in extensive discussions concerning its request for an increase. As a result of such discussions between the parties, the parties have reached an agreement concerning its request for an increase in rates.

7. The parties agree that HC Sewage has been funding operating shortfalls of the Company through funds provided by its owners. The parties further agree that HC Sewage cannot continue this practice.

8. The parties to this Proposed Settlement Agreement have exchanged information and engaged in extensive 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 agree that it would be reasonable to set HC Sewage's annual revenue requirement at \$44,100 per year since the company does not have sufficient revenue to sustain its operations. This rate increase is based upon the latest 12 months to date revenues at current rates and 2007 test year expenses grown at a fair and reasonable agreed upon rate of 3% per year for the attrition years 2008, 2009 and 2010. See Exhibit A, pages 1 – 3.

9. The parties agree that rates will be set to cover projected operating costs excluding any applicable excise or income taxes for the years 2008, 2009 and 2010 with no margin. No rate of return will be established since rates were based on operating margin.

10. 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 2010 nothing

in this Proposed Settlement Agreement shall prevent either party from seeking rate adjustments prior to the end of 2010 if conditions warrant such action.

11. The Company agrees to use the monthly recovery of depreciation (a non cash expense) to pay down the principal on the original note payable.

12. The Proposed Settlement Agreement will be effective upon the date approved and determined by the Authority. The parties agree that this Proposed Settlement Agreement is subject to the approval of the Directors of the TRA assigned to this docket. The Company shall be allowed to increase its base rate for the first 10,000 usage per month from \$100 to \$200 or 100% and its volumetric rate for each additional gallon in excess of 10,000 per month from \$.01 to \$.0557645 or 458%, provided the requisite public notice is provided and a public hearing is held.

13. If adopted by the TRA the proposed settlement will increase the annual rates for its two commercial customers, Greeneville Oil (McDonalds Restaurant) from \$6,892 to \$34,139 a 395% increase and Pizza Plus Restaurant from \$2,556 to \$9,962, a 290% increase. Composite annual revenues will increase from \$9,448 to 44,101 a 367% increase.

14. The parties are aware that the requested rate relief is significant, however, such relief is warranted in this case at this time since the company only has two commercial customers, the owners have been providing their own funds for the financial shortfall of HC Sewage, and rate relief should have been previously sought by the Company.

15. Upon Authority approval, the Company shall immediately file tariff revisions to reflect the stipulated rates and subsequently make other such tariff modifications as deemed necessary by the Staff to update the existing tariff.

16. HC Sewage's projected cumulative operating income deficiency excluding any excise or income taxes at present rates is (\$132,300) for 2008, 2009 and 2010.

17. The new rate design includes:

- a. The base sewer rate will increase from \$100 per customer per month to \$200 per customer per month. This rate includes the first 10,000 gallons of usage per customer, per month.
- b. The volumetric charge per gallon, per customer, per month for usage in excess of the 10,000 gallons included in base rates shall increase from \$.01 per gallon, per customer, per month to \$.0557645.
- c. No other rates will change.

18. Refunds for previously paid tap charges shall not be netted against revenue for HC Sewage's accounting purposes, but shall be accounted for as a repayment of previously over-collected tap fee amounts.

19. The revised rates agreed to in the Proposed Settlement Agreement are necessary in light of the current financial situation of HC Sewage and will provide the Company with a reasonable opportunity to recover operating costs.

20. For purposes of this settlement, all Pre-filed Testimony and exhibits are introduced into evidence without objection. If, however, questions should be asked by any person, including a TRA 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, 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.

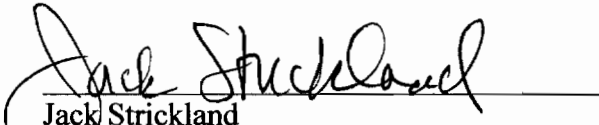
22. In the event that the Company merges, consolidates with or transfers its assets to another corporation or entity, its successor shall remain responsible for fully complying with the terms and conditions of this Proposed Settlement Agreement. The Company would have to petition the TRA pursuant to applicable statutes for approval of any such action.

23. 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 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 within five (5) business days 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.

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

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

**FOR HC SEWAGE TREATMENT, LLC**

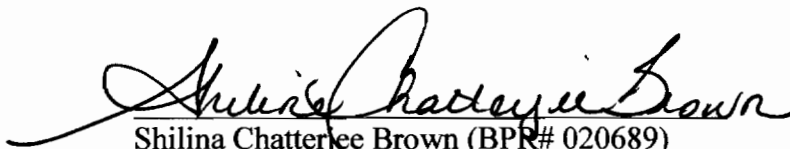
  
Jack Strickland  
4718 Lake Park Drive, Suite 3  
Johnson City, TN 37615

Date: July 31, 2008

  
Joy Strickland  
4718 Lake Park Drive, Suite 3  
Johnson City, TN 37615

Date: July 31, 2008

**FOR STAFF OF THE TENNESSEE  
REGULATORY AUTHORITY**

  
Shilina Chatterjee Brown (BPR# 020689)  
Legal Counsel  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
2<sup>nd</sup> Floor  
Nashville, TN 37212  
(615) 741-2904 Ext. 154

Date: August 1, 2008

# EXHIBIT A

## Expenses

## Exhibit A Page 1

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Fuel	1,147	1,181	1,217	1,253
Maintenance - mowing	840	865	891	918
Contact Svcs	19,128	19,702	20,293	20,902
Insurance	1,488	1,533	1,579	1,626
Misc - (less: tax and interest) = Accounting	825	850	875	901
Rate Case Expense		1,228	1,228	1,228
Salaries and Wages	0	3,000	3,090	3,183
Total O & M	<u>23,428</u>	<u>28,359</u>	<u>29,173</u>	<u>30,011</u>
Depreciation	6,906	6,906	6,906	6,906
Other Taxes	1,877	1,933	1,991	2,051
Carrying Cost of Original Debt	<u>6,436</u>	<u>6,297</u>	<u>6,021</u>	<u>5,745</u>
Total Expense to Cover	38,647	43,496	44,091	44,713
Total 2008 - 2010 Attrition Period				132,300
Annual Revenue Requirement			<u><u>44,100</u></u>	



Exhibit A  
Page 2

	2007	Greenville Oil	Pizza Plus	Revenue at Current Rates			At 200 @ .	0.0557645	
June		51,040	15,990	510	160		2,489	534	
July		52,610	20,330	526	203		2,576	776	
August		54,380	20,160	544	202		2,675	767	
September		59,190	22,650	592	227		2,943	905	
October		70,660	24,400	707	244		3,583	1,003	
November		46,120	26,020	461	260		2,214	1,093	
December	2008	65,890	21,660	659	217		3,317	850	
January		61,810	18,320	618	183		3,089	664	
February		64,770	22,550	648	226		3,254	900	
March		53,030	24,150	530	242		2,600	989	
April		51,230	21,320	512	213		2,499	831	
May		58,430	18,050	584	181		2,901	649	
		689,160	255,600	6,892	2,556	9,448	34,139 395%	9,962 290%	44,101 367%

## Rate Design

## Exhibit A Page 3

Base Rate Customer Charge - 1st 10,000 gallons 200.00  
Volumetric Rate 0.0557645

Annual Revenue Requirement 44,100

Annual Usage:  
McDonalds (Greeneville Oil) 689,160  
Pizza Plus 255,600  
Total

	Annual Base Rate Revenue	Annual Volumetric Revenue	Total Annual Revenue	
McDonalds	2400	31,739	34,138.92	
Pizza Plus	2400	7,562	9,961.67	
Total				44,101
Difference				0