



TENNESSEE REGULATORY AUTHORITY

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

May 15, 2009

Director Sara Kyle
Director Mary W. Freeman
Tennessee Regulatory Authority
460 James Roberson Parkway
Nashville, TN 37243-0505

RE: Docket 08-00202 Petition of Tennessee Wastewater Systems, Inc. to
Amend Its Rates and Charges

Dear Directors Kyle and Freeman:

Please find the attached motion that I plan to make at our scheduled Authority Conference on May 18, 2009, in the above-referenced Authority Section 4 agenda item. For your convenience, I am filing this today in order that you have sufficient time for review before we deliberate.

Sincerely,

Eddie Roberson / gms

Eddie Roberson
Chairman

Attachment

Chairman Roberson's Motion
Docket No. 08-00202

Proposed Settlement Agreement

A proposed Settlement Agreement was submitted by Tennessee Wastewater Systems, Inc. ("TWSI" or "the Company") and the Consumer Advocate and Protection Division ("CAPD") on May 7, 2009. Although the following is not an exhaustive list, among the provisions of the Settlement Agreement are:

- Revenue forecast of \$914,250;
- Operations and Maintenance Expense forecast of \$1,090,791;
- Federal and state income taxes of \$29,243;
- Revenue deficiency of \$295,000 based on a 6.5% operating margin;
- No changes will be made in the Company's escrow charges;
- Fees are increased to the following amounts: access fee of \$120 per year; disconnect charge of \$40, reconnect charge of \$50, returned check fee of \$25;
- The customer deposit requirement is eliminated;
- Mowing or vegetation control costs beyond the standard allowance are passed through to customers.

One area of continued concern is rate case expenses. Utilities must do everything they can to ensure these expenses are prudent. As proven in TRA Docket No. 08-00039, the TRA will not allow unreasonable rate case expenses to be borne by ratepayers. The Settlement Agreement includes recovery of rate case costs and legal expenses amortized over six years. After comparing the amounts set forth in Settlement Agreement Exhibit 3 to the amortized amount of approximately \$11,000 per year, it appears that the negotiated Settlement Agreement properly reduced the amount of rate case expenses to be recovered.

I find the terms of the proposed Settlement Agreement will result in rates that are just and reasonable and will allow TWSI a reasonable opportunity to earn a fair margin. Therefore, I move approval of the proposed Settlement Agreement.

Rate Design

The settling parties were not able to agree as to rate design. The CAPD has proposed a rate design which spreads the rate increase of approximately 36% across all customers with the exception of residential customers in the South Ridge subdivision in Montgomery County. TWSI neither supports nor opposes the CAPD's proposed rate design.

There is good reason why South Ridge customers should be excluded from this rate increase. South Ridge rates are the highest paid by any TWSI customers. South Ridge residents pay a flat rate of \$24.32 plus a volumetric usage charge imposed by the City of Clarksville. These customers are subject to future rate increases which may be imposed by the City of Clarksville and will be paying, in addition to the base rate, the costs of a building a treatment facility. Generally, for other TWSI customers, the treatment facility was built while the subdivision was being developed and its costs were paid by the developer. After the TWSI treatment facility is completed, South Ridge customers will then pay a flat monthly charge of \$55.36. This rate reflects the rate approved in TRA Docket No. 06-00184 plus the current escrow amount. For these reasons, I find that South Ridge customers are not similarly situated and it is reasonable to exclude them from the rate increase. Therefore, I move approval of the rate design as set forth in Settlement Agreement Exhibit 1. For clarification, this spreads the remainder of any revenue deficiency after accounting for the rate changes included in the Settlement Agreement evenly to the remaining customers other than those in South Ridge.

I further move that TWSI file a tariff reflecting these deliberations within 30 days. Additionally, the parties should file a price out with the tariff demonstrating the revenue generated from these rate changes.

Other Issues

I further move the following:

Allocation of Adenus Group Costs

Going forward, Adenus Group should directly allocate corporate costs, whenever possible. Further, TWSI is advised that failure to directly allocate costs directly attributable to the utility may adversely affect its inclusion in rates in future rate cases.

Reports on South Ridge Lagoon Construction

TRA Staff of the Consumer Services Division and TWSI shall develop a reporting method that is acceptable to all parties to keep customers of South Ridge informed of any progress made on the lagoon treatment facility construction. This reporting to South Ridge customers should commence within 60 days of these deliberations.

Update on Meeting with Highland Cove Condominium Representatives

TWSI has indicated it will meet with representatives of Highland Cove Condominiums to answer questions about maintenance concerns. TWSI shall file with the Authority an update on any meetings within 30 days of these deliberations.

Feasibility of Volumetric Rate Design

I find that the moving from a flat charge to a partial volumetric charge rate design may encourage conservation and incentive efficiencies in both water and sewage usage. Therefore, TWSI is directed to investigate with water providers in its service areas the costs of an agreement that would allow the Company to base a portion of its bill on a percentage of water usage for each customer. TWSI shall also provide any other costs of such billing. TWSI will provide this information to the TRA Staff of the Utilities Division within 6 months of deliberations. TRA Staff shall prepare a report to the Authority on the feasibility of a partial volumetric rate design within 60 days of receipt of the information from TWSI. Such report shall be filed in this docket.