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DATE: March 17, 2010
TO: Docket File
FROM: Utilities Division
RE: Petition of Tennessee Wastewater Systems, Inc. for Approval to Amend
Its Rates and Charges
Docket No. 08-00202

Attached is the Utilities Division Staff Report on information gathered pertaining to partial volumetric rate design for Tennessee Wastewater Systems, Inc ("TWWS" or "Company"). A majority of the panel in Docket No. 08-00202 requested the Company to investigate the cost of billing customers by water usage data and staff to issue a report.

Cc: Honorable Representative Curtis Johnson
Chairman Sara Kyle
Director Eddie Roberson
Director Kenneth C. Hill
Director Mary W. Freeman

IN RE:

Petition of Tennessee Wastewater Systems, Inc. for
Approval to Amend Its Rates and Charges

)
)
) Docket No. 08-00202
)

Staff Report on Feasibility of Partial Volumetric Billing

Tennessee Wastewater Systems, Inc. ("TWWS" or "Company") bills a flat monthly rate to the majority of its customers.¹ On October 20, 2008, TWWS filed a petition with the Tennessee Regulatory Authority ("TRA" or "Authority") in Docket No. 08-00202 requesting an increase in rates. In its deliberations on May 18, 2009, the panel in this Docket upheld the current rate design of a flat rate per month. A majority of the panel, however, determined that a partial volumetric rate design may encourage customer conservation and voted to direct the Company to investigate the cost of obtaining its customers' monthly water usage data from the respective water providers, in order to enable TWWS to bill its customers based on their volumetric usage. By Authority Order dated July 8, 2009, TWWS was directed to file a report with the Authority within six (6) months of deliberations, providing the costs of obtaining agreements with the local water providers and any other costs associated with basing at least a portion of a customer's bill on water usage. Additionally, the Utilities Division Staff was directed to review the information provided by the Company and prepare a report to the Authority on the feasibility of a partial volumetric rate design for TWWS. Staff's report was to be filed within sixty (60) days of the receipt of the Company's information.

TWWS filed the requested information with the Authority on January 14, 2010. The Company concludes that the "expense of usage based billing outweighs any identifiable benefits to residential customers."² The Company bases its conclusion on the following:

1. TWWS sent letters to six (6) utility districts collectively providing water service to nine (9) of the Company's service areas.³ Only one response was received;⁴
2. The response from Milcrofton Utility District indicated a willingness to provide the requested customer information at a charge of \$1.00 per customer per month;
3. TWWS currently receives monthly water meter readings from Clarksville for customers located in South Ridge at a charge of \$15 for signing up new customers

¹ The Company's current tariff permits TWWS to manually calculate an overnight rental customer's bill based on water usage, if the Company has reason to believe that the customer is using more than 300 gallons of water a day.

² Tennessee Wastewater letter dated January 11, 2010, page 2 (January 14, 2010).

³ Company data response (February 22, 2010).

⁴ This lack of response is consistent with their prior attempts to obtain customer water meter readings.


and \$15 per month to provide monthly meter readings for the 190 customers residing in South Ridge;

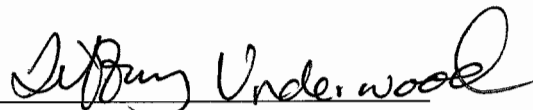
4. TWWS currently bills approximately 30 of the 1800 overnight rental customers on a volumetric basis, requiring manual calculation of each bill;
5. Manual billing for all 1800 customers would require an additional Company employee at a cost of approximately \$40,000 per year (including benefits) plus the cost of obtaining monthly water usage for each customer;
6. Not all customers could be billed based on water usage, since a number of customers obtain water from private wells; and
7. Nearly all of TWSS's expenses are fixed, which supports the use of a flat rate.

TWWS estimates that the additional costs to the Company to convert to volumetric billing would result in an additional \$21.60 per customer per year (\$1.80 per month). This estimate would recover the cost of an additional employee to do the billing and does not include the cost of obtaining monthly customer water usage from the water providers. The additional cost to obtain water usage information could be \$1.00 per customer per month or more, based on the response of Milcrofton Utility District. TWWS' current flat monthly rate is \$34.02 for residential rate class tier 1. An additional \$2.80 per month represents an 8.2% increase to the customer.

The Company attributes the lack of response from water utilities to a general reluctance to cooperate with privately owned utilities, possibly viewing privately owned utilities as potential competitors. TWWS indicates in its response that it has previously tried to obtain customer information from utility districts with little success. TWWS serves over 100 different certificated communities across the state.

Respectfully Submitted:


Pat Murphy
Manager
Utilities Division of the
Tennessee Regulatory Authority


Tiffany Underwood
Utilities Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of March, 2010, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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