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Before the

T.R.A. DOCKET ROOM

**TENNESSEE REGULATORY AUTHORITY**

IN RE:

LYNWOOD UTILITY CORPORATION'S  
PETITION FOR ADJUSTMENT OF RATES

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DOCKET NO. 09-00034

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**DIRECT TESTIMONY  
OF  
DAVE PETERS**

\*\*\*\*\*

**June 19, 2009**

Before the

**TENNESSEE REGULATORY AUTHORITY**

IN RE:

LYNWOOD UTILITY CORPORATION'S  
PETITION FOR ADJUSTMENT OF RATES

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DOCKET NO. 09-00034

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WORK PAPERS  
OF  
DAVE PETERS

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June 19, 2009

## Lynwood Utilities Corp. TRA Docket #09-00034

## Schedule 1

Revenue Deficiency  
For 12 Months Ending December 31, 2008

Line No.		Consumer Advocate Settlement	Company	F/	Difference
	(Maintenance Expenses)				
1	Rate Base	\$485,313 A/	\$1,028,956 A/		(\$543,643)
2	Operating Income at Present Rates	(\$6,398) B/	(\$85,880) B/		\$79,482
3	Earned Rate of Return	-1.32%	-8.35%		7.03%
4	Fair Rate of Return	7.50% C/	8.00%		-0.50%
5	Required Operating Income	\$36,398	\$82,316		(\$45,918)
6	Operating Income Deficiency	\$42,797	\$168,197		(\$125,400)
7	Gross Revenue Conversion Factor	<u>0.907</u>	<u>0.907</u>		<u>0</u>
8	Revenue Deficiency (Surplus)	<u>\$47,185</u>	<u>\$185,443</u>		<u>(\$138,258)</u>
	<b>Rate Increase</b>	<b>7.96%</b>	<b>33.82%</b>		
A/	Schedule 3, Line 27				
B/	Schedule 4, Line 18				
C/	Schedule 7, Line 5				

Lynwood Utilities Corp. TRA Docket #09-00034  
Comparison of Rate Making Components  
Company vs. Consumer Advocate  
For 12 Months Ending December 31, 2008

Schedule 2

Line #		Company 2008 Actual		ADJUSTMENTS		Consumer Advocate
1	Sewer Revenue - Usage Based	\$521,605	A/	\$0		\$521,605
2	Tap Fees	\$17,500	B/	(\$45,500)	C/	\$63,000
3	Penalty Fees	\$8,163	D/	\$0		\$8,163
4	Inspection Fees	\$1,000	E/	\$0		\$0
5	Total Revenues	\$548,268		(\$45,500)		\$592,768
6	Purchased Wastewater	\$2,551	F/	\$0		\$2,551
7	Sludge Removal	\$34,617	G/	\$3,147		\$31,470
8	Purchased Power	\$62,794	H/	\$10,466	I/	\$52,328
9	Chemicals	\$42,450	J/	\$0		\$42,450
10	Materials & Supplies	\$20,502	K/	\$0		\$20,502
11	Engineering Inspections	\$2,701	L/	\$0		\$2,701
12	Testing	\$31,488	M/	\$0		\$31,488
13	Repairs & Maintenance	\$89,030	N/	\$0		\$89,030
14	Operations Management	\$28,800	O/	\$0		\$28,800
15	Billing and Collection Fees	\$44,966	P/	\$0		\$44,966
16	Bad Debt Expenses	\$10,334	Q/	\$0		\$10,334
17	Accounting and Bookkeeping	\$16,635	R/	\$0		\$16,635
18	Tax Accounting	\$2,850	S/	\$0		\$2,850
19	Accounting - Other	\$13,049	T/	\$0		\$13,049
20	Legal	\$8,899	U/	\$0		\$8,899
21	Management	\$16,000	V/	\$0		\$16,000
22	Rent	\$10,344	W/	\$0		\$10,344
23	Insurance	\$18,699	X/	\$0		\$18,699
24	Other Misc. Expenses	\$1,629	Y/	\$0		\$1,629
25	Taxes Other Than Income Taxes	\$20,716	Z/	(\$845)		\$21,561
26	Regulatory Expenses	\$33,524	AA/	\$8,371	BB/	\$25,153
27	Depreciation & Amortization, Net	\$121,569	CC/	\$13,842	DD/	\$107,727
28	Total Operating Expense	\$ 634,147		\$ 34,981		\$ 599,166
29	Net Operating Income ("NOI")	\$ (85,879)		\$ (80,481)		\$ (6,398)
Rate Base						
30	Plant in Service	\$ 3,122,341	EE/	\$ 191,089	FF/	2,931,252
31	Deferred Debits and Deposits	143,618	GG/	-		143,618
32	Cash Working Capital	52,574	HH/	12,729	II/	39,845
33	Total	\$ 3,318,533		\$ 203,818		\$ 3,114,715
Less Deductions:						
34	Accumulated Depreciation	1,602,052	JJ/	(38,248)	KK/	1,640,300
35	Contributions In Aid of Construction	687,524	LL/	(301,578)	MM/	989,102
36	Total Deductions	2,289,576		(339,826)		2,629,402
37	Rate Base (line 38- Line 44)	1,028,957		543,644		485,313

**Lynwood Utilities Corp. TRA Docket #09-00034**  
**Comparative Rate Base**  
**For 12 Months Ending December 31, 2008**

**Schedule 3**

<u>Line No.</u>		<u>Consumer Advocate</u>	<u>Company</u>	<u>Difference</u>
1	Utility Plant in Service	<u>\$2,931,252</u> A/	\$3,122,341 B/	(\$191,089)
2	Deferred Debits and Deposits	\$143,618 C/	\$143,618 C/	\$0
3	Cash Working Capital	\$39,845 D	\$52,574 E	(\$12,729)
4	Total Additions	<u>\$3,114,715</u>	<u>\$3,318,533</u>	(\$203,818)
5	Accumulated Depreciation	<u>\$1,640,300</u> F/	\$1,602,052 G/	\$38,248
6	Contributions In Aid of Construction	<u>\$989,102</u> H/	<u>\$687,524</u> I/	<u>\$301,578</u>
7	Total Deductions	<u>\$2,629,402</u>	<u>\$2,289,576</u>	\$339,826
8	Rate Base	<u>\$485,313</u>	<u>\$1,028,956</u>	<u>(\$543,643)</u>

A/ 2006 Rate Case-Rate Base 'I16-'Utility Plant In Service'!F31  
B/ 2009 Rate Case-Rate Base'!F6

**Lynwood Utilities Corp. TRA Docket #09-00034**

**Schedule 4**

**Income Statement at Current Rates  
For 12 Months Ending December 31, 2008**

<u>Line No.</u>		<u>Consumer Advocate</u>		<u>Company</u>	<u>Difference</u>
1	Water Service Revenues (Inc. Tap Fees)	\$584,605	A/	\$540,105	\$44,500
2	Penalties/Late Fees	\$8,163	B/	\$8,163	\$0
3	Forfeited Discounts	\$0		\$0	\$0
4	AFUDC	\$0		\$0	\$0
	Total Revenue	\$592,768		\$548,267	\$44,501
3	Other Operating and Maintenance	\$469,879	C/	\$491,862	(\$21,984)
4	Depreciation and Amort. Exp.	\$107,727	D/	\$121,569	(\$13,842)
5	Taxes Other Than Income	\$21,561	E/	\$20,716	\$845
8	Total Operating Expense	\$599,166		\$634,147	(\$34,981)
9	Net Operating Income for Return	<u>(\$6,398)</u>		<u>(\$85,880) B/</u>	<u>\$79,482</u>

A/ Schedule 12, Line 4  
 B/ Company Schedule B, p.1  
 C/ Schedule 7, Line 21  
 D/ Schedule 2, Line 33  
 E/ Schedule 2, Line 31

Lynwood Utilities Corp. TRA Docket #09-00034

Schedule 5

Income Statement at Proposed Rates  
For 12 Months Ending December 31, 2008

Line No.		Consumer Advocate		Consumer Advocate	
		Current Rates	Normalizing Adjustments	Current Rates	
1	Water Service Revenues	<u>\$540,105</u> A/	<u>\$44,500</u> B/	<u>\$584,605</u>	
2	Miscellaneous Revenues	<u>\$8,163</u> C/	<u>\$0</u>	<u>\$8,163</u>	
3	Total Revenue	<u>\$548,268</u>	<u>\$44,500</u>	<u>\$592,768</u>	
4	Operation and Maintenance	<u>\$491,862</u> D/	<u>(\$21,984)</u> E/	<u>\$469,879</u>	
5	Depreciation	<u>\$121,569</u> F/	<u>(\$13,842)</u> F/	<u>\$107,727</u>	
6	Taxes Other Than Income	<u>\$21,561</u> G/		<u>\$21,561</u>	
7	Total Operating Expense	<u>\$634,992</u>	<u>(\$35,826)</u>	<u>\$599,166</u>	
8	Net Operating Income for Return	<u>(\$86,724)</u>	<u>\$80,326</u>	<u>(\$6,398)</u>	
A/	Sch. 4 Line 4				
B/	Sch. 4 Line 4				
C/	Sch. 4 Line 5				
D/	Sch. 4 Line 11				
E/	Sch. 4 Line 11				
F/	Sch. 4 Line 12				
G/	Sch. 4 Line 13				

**Operation Maintenance Expenses**  
For 12 Months Ending December 31, 2008

<u>Line No.</u>		<u>Consumer Advocate</u>		<u>Company</u>	<u>Difference</u>
	(Maintenance Expenses)				
1	Purchased Wastewater	\$2,551 A/		\$2,551	\$0
2	Sludge Removal	\$31,470 B/		\$34,617	(\$3,147)
3	Purchased Power	\$52,328 C/		\$62,794 D/	(\$10,466)
4	Chemicals	\$42,450 E/		\$42,450	\$0
5	Materials & Supplies	\$20,502 F/		\$20,502	\$0
6	Engineering Inspections	\$2,701 G/		\$2,701	\$0
7	Testing	\$31,488 H/		\$31,488	\$0
8	Repairs & Maintenance	\$89,030 I/		\$89,030	\$0
9	Operations Management	\$28,800 J/		\$28,800	\$0
11	Total Operations Maintenance	\$301,320		\$314,933	(\$13,613)
12	Billing and Collection Fees	\$44,966 K/		\$44,966	\$0
13	Bad Debt Expenses	\$10,334 L/		\$10,334	\$0
14	Accounting and Bookkeeping	\$16,635 M/		\$16,635	\$0
15	Tax Accounting	\$2,850 N/		\$2,850	\$0
16	Accounting - Other	\$13,049 O/		\$13,049	\$0
17	Legal	\$8,899 P/		\$8,899	\$0
18	Management	\$16,000 Q/		\$16,000	\$0
19	Rent	\$10,344 R/		\$10,344	\$0
20	Insurance	\$18,699 S/		\$18,699	\$0
21	Other Misc. Expenses	\$1,629 T/		\$1,629	\$0
22	Taxes Other Than Income Taxes	\$21,561 U/		\$20,716	\$845
23	Regulatory Expenses	\$25,153 V/		\$33,524	(\$8,371)
24	Depreciation & Amortization, Net	\$107,727 W/		\$121,569 X/	(\$13,842)
25	Total Expenses	<u>\$599,166</u>		<u>\$634,147</u>	<u>(\$34,981)</u>



Lynwood Utilities Corp. TRA Docket #09-00034  
 Cost of Capital  
 For 12 Months Ending December 31, 2008

**Schedule 7**

<u>Line No.</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
1 Short term Debt	0.00%	0.00% <i>A/</i>	0.00%
2 Long Term Debt	114.23%	7.50% <i>A/</i>	8.57%
3 Preferred Stock	0.00%	0.00% <i>A/</i>	0.00%
4 Stockholder's Equity	-14.23%	7.50% <i>A/</i>	-1.07%
5 Total	100.00%		7.50%

Last Rate Increase was 12/2007 for 13.15% - increased it's revenues by \$61,991.00  
Company sought 34.4% in this docket (07-0007)

Company showed their rate base as \$236,382 in docket 07-0007

Company's Numbers	CIAC in this case CIAC in 07-0007	(\$687,524) (\$945,056) Their sched 1.1
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Granted Certificate of Convenience 5/14/76  
Serves Williamson County Subdivisions:

Cottonwood  
Legends Ridge  
River Landings

And a few residences near these developments  
And two non-residential customers (Berrys Chapel Church Of Christ and Walnut Grove Elementary School)

Revenue for 2 non-res customers was \$11,254.00 for 2008

Historical Test Year	12/31/2008
Attrition Year	12/31/2009

Increase request	33.82%
Revenue in \$ request	\$185,440
Current approved rate of return	8%
Financial consultant	James Ford

by in Excel format) of accounting exhibits filed  
customer class (i.e. who are the 2 non-residential customers and how much revenue do they provide)

Rate base =	\$1,028,953
Last rate increase	12/11/2007
Customers	825

Ryan

HB&TS Utility Districts charges 7.5% for billing services

Hillsboro, Burrwood & Thompson Station

Pg. 57-105 Balance Sheet

Pg. 23

Pg. 106 - 159 P&L

In their Utility Plant from 2006 rate case, they show a balance of \$2,806,755. We show a balance of \$2,958,485 difference is 151,730 which is collection system - they have it in this case, not the 07-0007 case why?????

	2009 Docket	2009 Docket	2007 Docket	
Residential	Charge Per 1,000 gallons	\$8.78	\$6.53	34.46%
Residential	Minimum Monthly Charge	\$20.00	\$15.00	33.33%
Non-Residential	Charge Per 1,000 gallons	\$10.41	\$8.16	27.57%
Non-Residential	Minimum Monthly Charge	\$30.00	\$20.00	50.00%
	LUC Average Usage	8,500	8,500	
	LUC Bill	\$74.63	\$55.51	34.46%
	Franklin	\$32.25		
	Brentwood	\$47.62		
	Harpeth Valley	\$48.85		
	Spring Hill	\$22.39		
	5,000 Gallon Bill		\$32.65	
	LUC	\$43.90	95.86% 139 out of 145 wastewater systems have lower rates	
	Franklin	\$20.49	83.45% 121 out of 145 wastewater systems have lower rates at current LUC rates	
	Brentwood	\$29.80		
	Harpeth Valley	\$28.25		
	Spring Hill	\$14.34		
	http://www.springhilltn.org/PDF/waternewcustomerforms.pdf			
	http://media.timesfreepress.com/docs/2008/08/Rate_Survey.pdf	\$7.67		
	http://media.timesfreepress.com/docs/2008/08/Rate_Survey.pdf	\$75.84		
	http://media.timesfreepress.com/docs/2008/08/Rate_Survey.pdf	\$23.00	Median	
	http://media.timesfreepress.com/docs/2008/08/Rate_Survey.pdf			
		\$32.65		
		\$35.95		

Docket 09-00034

Lynwood Utility Corporation

Company

CAD

Change In Rate Base Since Last Rate Case		look at reclass from CIAC to retained earnings	
Prior Case Rate Base	\$565,425	↙	\$395,787
Increase In Deferred Debits	\$85,901		
Plant Additions	\$83,320		(\$75,442)
2007			
2008	\$80,515	depreciation not in here for both years	(\$78,036)
Working Capital Requirement	\$52,750		
Amortization of CIAC	\$76,299	additions to CIAC not in here for b	\$15,799
2007	\$50,824		\$33,324
2008			
Other Items	<u>\$34,099</u>		
Current Case Rate Base	\$1,029,133		
	\$1,028,953		
	\$180		

	Customers				
	2005	2006	2007	2008	2009
January	740	779	799	818	833
February	740	778	807	822	836
March	740	783	807	827	
April	742	780	808	827	
May	753	790	807	830	
June	755	791	808	831	
July	759	791	811	829	
August	754	796	814	830	
September	765	795	814	830	
October	767	805	814	831	
November	771	794	820	833	
December	776	807	823	837	
Average	755	791	811	829	835
Commercial Customers	2	2	2	2	2
		36	20	18	
Net Residential Customers (avg.)	753	789	809	827	833

HB & TS  
COF  
Hillsboro, Burrwood & Thompson Station  
City Of Franklin

Docket 09-00034

Lynwood Utility Corporation

# Company exhibit

Account	12/31 Balance	Gross	Accumulated Amortization	Net
---------	---------------	-------	--------------------------	-----

Year				
977-199 Balance		\$303,700.00	-\$303,700.00	\$0.00
Additions		\$36,000.00	\$0.00	\$36,000.00
Amortization		\$0.00	-\$1,800.00	-\$1,800.00
1998 Balance		\$339,700.00	-\$305,500.00	\$34,200.00
Additions		\$42,600.00	\$0.00	\$42,600.00
Amortization		\$0.00	-\$3,930.00	-\$3,930.00
1999 Balance		\$382,300.00	-\$309,430.00	\$72,870.00
Additions		\$46,750.00	\$0.00	\$46,750.00
Amortization		\$0.00	-\$6,268.00	-\$6,268.00
2000 Balance		\$429,050.00	-\$315,698.00	\$113,352.00
Additions		\$196,850.00	\$0.00	\$196,850.00
Amortization		\$0.00	-\$16,111.00	-\$16,111.00
2001 Balance		\$625,900.00	-\$331,809.00	\$294,091.00
Additions		\$74,000.00	\$0.00	\$74,000.00
Amortization		\$0.00	-\$19,811.00	-\$19,811.00
2002 Balance		\$699,900.00	-\$348,280.00	\$348,280.00
Additions		\$225,000.00	\$0.00	\$225,000.00
Amortization		\$0.00	-\$58,661.00	-\$58,661.00
2003 Balance		\$1,062,900.00	-\$410,281.00	\$652,619.00
Additions		\$109,750.00	\$0.00	\$109,750.00
Amortization		\$0.00	-\$64,149.00	-\$64,149.00
2004 Balance		\$1,172,650.00	-\$474,430.00	\$698,220.00
Additions		\$133,000.00	\$0.00	\$133,000.00
Amortization		\$0.00	-\$70,799.00	-\$70,799.00
2005 Balance		\$1,305,650.00	-\$545,229.00	\$760,421.00
Additions		\$49,500.00	\$0.00	\$49,500.00
Amortization		\$0.00	-\$73,274.00	-\$73,274.00
2006 Balance		\$1,355,150.00	-\$618,503.00	\$736,647.00
Additions		\$60,500.00	\$0.00	\$60,500.00
Amortization		\$0.00	-\$76,299.00	-\$76,299.00
2007 Balance		\$1,415,650.00	-\$694,802.00	\$720,848.00
Additions		\$17,500.00	\$0.00	\$17,500.00
Amortization		\$0.00	-\$50,824.00	-\$50,824.00
2008 Balance		\$1,433,150.00	-\$745,626.00	\$687,524.00

why does number go down in 2008 from 2007

-\$49,123.00  
-\$127,123.00

Docket 07-0007 (company sched. 4)

Lynwood Utility Corporation

Account	12/31 Balance	Gross	Accumulated Amortization	Net
977-199 Balance		\$429,050	(\$32,420)	\$396,630
Additions		\$196,850		\$196,850
Amortization		\$0	(\$26,374)	(\$26,374)
2000 Balance		\$625,900	(\$58,794)	\$567,106
Additions		\$74,000		\$74,000
Amortization		\$0	(\$33,145)	(\$33,145)
2001 Balance		\$699,900	(\$91,939)	\$607,961
Additions		\$225,000		\$225,000
Amortization		\$0	\$0	\$138,000
2002 Balance		\$1,062,900	(\$40,620)	\$930,341
Additions		\$109,750		\$109,750
Amortization		\$0	(\$55,889)	(\$55,889)
2003 Balance		\$1,172,650	(\$188,448)	\$984,203
Additions		\$133,000	\$0	\$133,000
Amortization		\$0	(\$61,958)	(\$61,958)
2004 Balance		\$1,305,650	(\$250,405)	\$1,055,245
Additions		\$49,500	\$0	\$49,500
Amortization		\$0	(\$66,520)	(\$66,520)
2005 Balance		\$1,355,150	(\$316,925)	\$1,038,225
Additions		\$60,500	\$0	\$60,500
Amortization		\$0	(\$76,299)	(\$76,299)
2006 Balance		\$1,415,650	(\$393,224)	\$1,022,426
Additions		\$17,500	\$0	\$17,500
Amortization		\$0	(\$50,824)	(\$50,824)
2007 Balance		\$1,433,150	(\$444,048)	\$989,102

Lynwood Utility Corporation

# Company exhibit

	<u>2008</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>	
Operating	314,932	266,536	48,396	18.2%	
Customer Accounting	55,300	44,556	10,744	24.1%	
General & Admin	88,105	76,000	12,105	15.9%	
Taxes Other Than Income	20,716	27,075	(6,359)	-23.5%	
Regulatory Expenses	33,524	<b>8,800</b>	24,724	281.0%	
Depreciation & Amortization	121,569	69,820	51,749	74.1%	
Total	634,146	492,787	141,359	28.7%	
Increase In Operating Expenses			141,359		51,749
Regulatory					
Rate Case			18,200	12.9%	
Other			6,524	4.6%	
Taxes					
Lower Property Taxes			(6,359)	-4.5%	
Depreciation & Amortization			51,749	36.6%	
Customer Accounting					
Billing Expense			4,950	3.5%	
Bad Debts & Billing Adjustments			5,794	4.1%	107727
General & Admin					13,842
Rent			5,344	3.8%	
Insurance			9,145	6.5%	
Misc. Other			(2,384)	-1.7%	
Operations					
Projected Items			20,850	14.7%	
Material & Supplies			15,084	10.7%	
Chemical			17,721	12.5%	
Other			(5,259)	-3.7%	
Total Increase			141,359		

9.4% of rev in 2006 - 10% of rev in 2008

Cell F10 is wrong - per their own dep. Sched  
dep for 2006 was \$136,340.91  
docket 07-0007 settlement co. exhibit sched 4

Where do these numbers come from

\$10,465 for electricity rates - they AREN'T going up after all

# Company exhibit

Tap Fee Revenue						
	Quantity	Fees	2007	Quantity	Fees	2008
January	2	\$2,750	\$5,500	1	\$3,500	\$3,500
February	0	\$0	\$0	0	\$0	\$0
March	1	\$2,750	\$2,750	1	\$3,500	\$3,500
April	1	\$2,750	\$2,750	1	\$3,500	\$3,500
May	1	\$2,750	\$2,750	0	\$0	\$0
June	3	\$2,750	\$8,250	1	\$3,500	\$3,500
July	0	\$0	\$0	0	\$0	\$0
August	8	7 @ 2750 and 1 @ 3500	\$22,750	0	\$0	\$0
September	3	\$2,750	\$8,250	1	\$3,500	\$3,500
October	2	\$3,500	\$7,000	0	\$0	\$0
November	0			0	\$0	\$0
December	0			0	\$0	\$0
Misc.			\$500			
Total			\$60,500			\$17,500
			21			5

Only 5 tap fees but they added 18 cu  
Rev. from tap fees s/b \$63,000  
Difference (\$45,500)

Data Response of LUC 4/9/2009 pg. 3

Only 5 tap fees but they added 18 customers  
Rev. from tap fees s/b \$63,000  
Difference (\$45,500)

Data Response of LUC 4/9/2009 pg. 3



Docket 09-00034

Lynwood Utility Corporation

Schedule B-2

Schedule	12/31/2008	Adjustments	Pro Forma
B-1 Unamortized Debt Discount	\$9,280	\$0	\$9,280
B-2 Deferred Cost of 2006 Rate Case	\$30,020	\$0	\$30,020
B-3 Deferred Cost of 2009 Rate Case		\$36,000	\$36,000
B-5 Deferred Cost of Odor Control	\$34,959	\$0	\$34,959
B-4 Rent Deposit	\$1,500	\$0	\$1,500
Container Deposit	\$1,500	\$0	\$1,500
TDEC Case Balance	<u>\$30,359</u>	<u>\$0</u>	<u>\$30,359</u>
Total Deferred Debits and Deposits	<u>\$107,618</u>	<u>\$36,000</u>	<u>\$143,618</u>

Company exhibit

# Company exhibit

Docket 09-00034

Lynwood Utility Corporation

Year	Account		Structures & Improvements		Pump Equipment		Collection System		Lab Equipment		Treatment & Disposal		Transport Equipment		Total
	Land														
2000	Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$22,000.00	\$0.00	\$1,548,515.00	\$2,885.00	\$1,759,471.00						\$1,759,471.00
	Additions	\$0.00	\$0.00	\$0.00	\$19,500.00	\$0.00	\$0.00	\$0.00	\$19,500.00						\$19,500.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2001	Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$41,500.00	\$0.00	\$1,548,515.00	\$2,885.00	\$1,778,971.00						\$1,778,971.00
	Additions	\$0.00	\$0.00	\$35,353.00	\$14,250.00	\$0.00	\$47,868.67	\$0.00	\$97,471.67						\$97,471.67
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2002	Balance	\$10,000.00	\$125,105.00	\$88,181.00	\$55,750.00	\$0.00	\$1,596,383.67	\$2,885.00	\$1,764,426.72						\$1,764,426.72
	Additions	\$0.00	\$0.00	\$88,181.00	\$16,500.00	\$0.00	\$645,156.92	\$0.00	\$749,837.92						\$749,837.92
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2003	Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$30,000.00	\$0.00	\$2,241,540.59	\$2,885.00	\$2,244,425.59						\$2,244,425.59
	Additions	\$0.00	\$0.00	\$9,720.00	\$102,250.00	\$0.00	\$224,190.00	\$0.00	\$264,690.00						\$264,690.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2004	Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$102,250.00	\$0.00	\$2,465,730.59	\$13,385.00	\$2,479,115.59						\$2,479,115.59
	Additions	\$0.00	\$0.00	\$9,720.00	\$36,000.00	\$0.00	\$33,647.63	\$0.00	\$79,367.63						\$79,367.63
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2005	Balance	\$10,000.00	\$125,105.00	\$184,220.00	\$138,250.00	\$0.00	\$2,499,378.22	\$13,385.00	\$2,512,763.22						\$2,512,763.22
	Additions	\$0.00	\$6,475.00	\$2,377.00	\$13,500.00	\$0.00	\$26,511.67	\$0.00	\$48,863.67						\$48,863.67
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2006	Balance	\$10,000.00	\$131,580.00	\$186,597.00	\$151,750.00	\$0.00	\$2,465,172.89	\$13,385.00	\$2,478,557.89						\$2,478,557.89
	Additions	\$0.00	\$0.00	\$5,730.57	\$16,500.00	\$0.00	\$48,321.87	\$0.00	\$83,320.32						\$83,320.32
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2007	Balance	\$10,000.00	\$131,580.00	\$192,327.57	\$168,250.00	\$0.00	\$2,513,494.76	\$13,385.00	\$2,526,879.76						\$2,526,879.76
	Additions	\$0.00	\$24,000.00	\$8,453.26	\$22,839.43	\$0.00	\$22,683.20	\$0.00	\$50,515.89						\$50,515.89
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2008	Balance	\$10,000.00	\$155,580.00	\$200,780.83	\$191,089.43	\$0.00	\$2,536,177.96	\$13,385.00	\$2,549,562.96						\$2,549,562.96
	Additions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2006	Balance	\$125,105.00	\$72,256.00	\$22,252.00	\$0.00	\$0.00	\$1,059,352.96	\$7,108.00	\$1,066,460.96						\$1,066,460.96
	Additions	\$6,579.70	\$18,659.70	\$7,587.50	\$123,258.64	\$0.00	\$123,258.64	\$2,677.00	\$158,761.84						\$158,761.84
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2007	Balance	\$131,684.00	\$90,915.70	\$29,839.50	\$182,611.60	\$0.00	\$1,182,611.60	\$9,785.00	\$1,192,396.60						\$1,192,396.60
	Additions	\$0.00	\$19,232.76	\$8,412.50	\$125,674.74	\$0.00	\$125,674.74	\$2,677.00	\$158,351.74						\$158,351.74
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2008	Balance	\$0.00	\$131,684.00	\$110,148.46	\$38,252.00	\$0.00	\$1,308,286.34	\$12,754.30	\$1,321,040.64						\$1,321,040.64
	Additions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
2008	Balance	\$10,000.00	\$23,896.00	\$90,632.37	\$152,837.43	\$0.00	\$1,227,891.62	\$923.00	\$1,228,814.62						\$1,228,814.62
	Additions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						\$0.00

\$1,338.50

calc s/b 2677 per 20%

dep rate - the 1338.5

comes from their sched. B-3

\$1,603,386.38

Net

Liabilities

Assets

# Company exhibit

Docket 09-00034

Lynwood Utility Corporation

Account		Total						
Year	Land	Structures & Improvements	Pump Equipment	Collection System	Lab Equipment	Treatment & Disposal	Transport Equipment	Total
2000								
Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$22,000.00	\$0.00	\$1,548,515.00	\$2,885.00	\$1,759,471.00
Additions	\$0.00	\$0.00	\$0.00	\$19,500.00	\$0.00	\$0.00	\$0.00	\$19,500.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2001								
Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$41,500.00	\$0.00	\$1,548,515.00	\$2,885.00	\$1,778,971.00
Additions	\$0.00	\$0.00	\$35,353.00	\$14,250.00	\$0.00	\$47,868.67	\$0.00	\$97,471.67
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2002								
Balance	\$10,000.00	\$125,105.00	\$88,181.00	\$55,750.00	\$0.00	\$1,596,383.67	\$2,885.00	\$1,779,426.67
Additions	\$0.00	\$0.00	\$88,181.00	\$16,500.00	\$0.00	\$645,156.92	\$0.00	\$749,837.92
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2003								
Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$30,000.00	\$0.00	\$2,241,540.59	\$2,885.00	\$2,426,970.59
Additions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$224,190.00	\$10,500.00	\$264,690.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2004								
Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$102,250.00	\$0.00	\$2,465,730.59	\$13,385.00	\$2,896,970.59
Additions	\$0.00	\$0.00	\$9,720.00	\$36,000.00	\$0.00	\$33,647.63	\$0.00	\$79,367.63
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2005								
Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$138,250.00	\$0.00	\$2,499,378.22	\$13,385.00	\$2,970,338.22
Additions	\$0.00	\$6,475.00	\$2,377.00	\$13,500.00	\$0.00	\$26,511.67	\$0.00	\$48,863.67
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2006								
Balance	\$10,000.00	\$131,580.00	\$185,507.00	\$151,750.00	\$0.00	\$2,465,172.89	\$13,385.00	\$2,958,484.89
Additions	\$0.00	\$0.00	\$5,730.57	\$16,500.00	\$12,767.88	\$48,321.87	\$0.00	\$83,320.32
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2007								
Balance	\$10,000.00	\$131,580.00	\$185,507.00	\$168,250.00	\$12,767.88	\$2,513,494.76	\$13,385.00	\$3,041,895.21
Additions	\$0.00	\$24,000.00	\$8,453.26	\$22,839.43	\$2,540.00	\$22,683.20	\$0.00	\$80,515.89
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2008								
Balance	\$10,000.00	\$155,580.00	\$200,180.83	\$191,089.43	\$15,307.88	\$2,536,177.96	\$13,385.00	\$3,122,321.10

\$124,496.78

\$3,182,700.10  
-\$60,379.00  
\$2,806,734.89

# Company exhibit

Docket 09-00034

Lynwood Utility Corporation

Year	Account						
	Land	Structures & Improvements	Pump Equipment	Collection System	Lab Equipment	Treatment & Disposal	Transport Equipment
2000							
Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$22,000.00	\$0.00	\$1,548,515.00	\$2,885.00
Additions	\$0.00	\$0.00	\$0.00	\$19,500.00	\$0.00	\$0.00	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2001							
Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$41,500.00	\$0.00	\$1,548,515.00	\$2,885.00
Additions	\$0.00	\$0.00	\$35,353.00	\$14,250.00	\$0.00	\$47,868.67	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2002							
Balance	\$10,000.00	\$125,105.00	\$86,519.00	\$55,750.00	\$0.00	\$1,596,383.67	\$2,885.00
Additions	\$0.00	\$0.00	\$88,181.00	\$16,500.00	\$0.00	\$645,156.92	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2003							
Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$30,000.00	\$0.00	\$2,241,540.59	\$2,885.00
Additions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$224,190.00	\$10,500.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2004							
Balance	\$10,000.00	\$125,105.00	\$174,500.00	\$102,250.00	\$0.00	\$2,465,730.59	\$13,385.00
Additions	\$0.00	\$0.00	\$9,720.00	\$36,000.00	\$0.00	\$33,647.63	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2005							
Balance	\$10,000.00	\$125,105.00	\$183,230.00	\$138,250.00	\$0.00	\$2,499,378.22	\$13,385.00
Additions	\$0.00	\$6,475.00	\$2,377.00	\$13,500.00	\$0.00	\$26,511.67	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$60,717.00	\$0.00
2006							
Balance	\$10,000.00	\$131,580.00	\$186,597.00	\$151,750.00	\$0.00	\$2,465,172.89	\$13,385.00
Additions	\$0.00	\$0.00	\$5,730.57	\$16,500.00	\$12,767.88	\$48,321.87	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2007							
Balance	\$10,000.00	\$131,580.00	\$192,527.51	\$168,250.00	\$12,767.88	\$2,513,494.76	\$13,385.00
Additions	\$0.00	\$24,000.00	\$8,453.26	\$22,839.43	\$2,540.00	\$22,683.20	\$0.00
Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2008							
Balance	\$10,000.00	\$155,580.00	\$200,780.53	\$191,089.43	\$15,307.88	\$2,536,177.96	\$13,385.00

\$124,496.78

\$3,182,700.10  
-\$60,379.00  
\$2,806,734.89

Docket 09-00034

Lynwood Utility Corporation

	<u>Company</u>	
Rate Base	\$1,028,953	\$485,313
Pro-Forma Operating Revenue at Current Rate	(\$85,878)	(\$6,398)
Earned Rate Of Return On Rate Base	-8.35%	-1.32%
Approved Overall Rate Of Return	8.00%	8.00%
Required Operating Income	\$82,316	\$38,825
Operating Income Deficiency	(\$168,194)	(\$45,223)
Expansion Factor 0.907	(\$185,440)	(\$49,860)
Revenues 2008	\$548,268	\$548,268
Revenue Requirements	<u>\$733,708</u>	<u>\$598,128</u>
	\$733,692.24	\$49,860
	33.82%	9.09%

**Company exhibit**

Docket 09-00034  
Lynwood Utility Corporation

**Company**

Schedule

B-1	Utility Plant In Service	\$3,122,341	
B-2	Deferred Debits and Deposits	\$143,618	
B-3	Accumulated Depreciation	(\$1,602,052)	\$1,520,289
B-5	Working Capital	\$52,750	
B-4	Contribution in AID of Construction (CIAC)	<u>(\$687,524)</u>	
	Current Case Rate Base @ 12/31/08	\$1,029,133	
		\$1,028,953	
		\$180	

**Company exhibit**

Docket 09-00034  
Lynwood Utility Corporation

Schedule B-5

Schedule

	Company	
2008 Revenue	\$548,268	2008 Expenses
Net	divided by 365 days	1/12th
	\$1,502	
Average Time To Receive	(50Days)	
Average Time To Pay	15 Days	X35
Working Capital Requirement		
	\$52,574	

CAD	
\$478,137	
\$39,845	
\$39,845	\$12,729

Company exhibit

Docket 07-0007  
Lynwood Utility Corporation

Settlement  
Company Exhibit 1.1

Schedule	2006 Company
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B-1	Utility Plant In Service	\$2,806,755
B-2	Deferred Debits and Deposits	\$60,717
B-3	Accumulated Depreciation	(\$1,263,822)
B-5	Working Capital	\$0
B-4	Contribution in AID of Construction (CIAC)	<u>(\$1,038,225)</u>

Current Case Rate Base @ 12/31/08	\$565,425
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	\$1,028,953
--	-------------

	(\$463,528)
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	\$82,316
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Company exhibit



Docket 09-00034

Lynwood Utility Corporation

Schedule E-4

Schedule	Book 12/31/2008	Adjustments	Pro Forma
B-1 Property Taxes	\$17,013		\$17,013
B-2 Tn Franchise Taxes	\$3,000		\$3,000
Taxes Other	\$703		\$703
Total Customer Accounting Expenses	<u>\$20,716</u>	<u>\$0</u>	<u>\$20,716</u>

Company exhibit

Docket 09-00034

Lynwood Utility Corporation

Schedule E-3

Schedule	Book	12/31/2008 Factor	Adjustments	As Adjusted
Accounting and Bookkeeping	\$16,150	1.03%	\$485	\$16,635
Tax Accounting	\$2,850			\$2,850
Accounting - Other	\$13,049			\$13,049
Legal	\$8,899			\$8,899
Management	\$16,000			\$16,000
Rent	\$10,344			\$10,344
Insurance	\$17,641	1.06%	\$1,058	\$18,699
Other Misc. Expenses	\$1,582	1.03%	\$47	\$1,629
Total Operating Expenses	<u>\$86,515</u>		<u>\$1,590</u>	<u>\$88,105</u>

Company exhibit

Docket 09-00034  
Lynwood Utility Corporation

Schedule E-5

Schedule

Regulatory Expenses  
Utility Regulatory Assessment Fee  
Total Deferred Debits and Deposits

1250/month

Book	Adjustments	Pro Forma
12/31/2008		
\$17,371	\$6,000	\$23,371
\$4,153	\$0	\$4,153
\$21,524	\$6,000	\$27,524

\$15,000

difference are non-recurring expenses that should be excluded  
pg. 119/240 of company's response to CAS's 1st discovery request

\$2,371

Company exhibit

Docket 09-00034  
Lynwood Utility Corporation

Schedule E-2

Schedule		Book 12/31/2008	Adjustments	Pro Forma
B-1	Billing and Collection Fees	\$40,016	\$4,950	\$44,966 8.20%
B-2	Bad Debt Expenses	<u>\$4,540</u>	<u>\$5,794</u>	<u>\$10,334</u> 1.88%
	Total Customer Accounting Expenses	<u>\$44,556</u>	<u>\$10,744</u>	<u>\$55,300</u>

Billing is 7.5% of revenues  
Bad Debt is 1.8% of revenues

\$41,120.10  
\$9,868.82

Company exhibit

Docket 09-00034  
Lynwood Utility Corporation

Schedule

Schedule E-1

# Company exhibit

	Book 12/31/2008	Factor	Adjustments	As Adjusted
Purchased Wastewater	\$2,362	1.08%	\$189	\$2,551
Sludge Removal	\$31,470	1.10%	\$3,147	\$34,617
Purchased Power	\$52,328	1.20%	\$10,466	\$62,794
Chemicals	\$38,591	1.10%	\$3,859	\$42,450
Materials & Supplies	\$19,905	1.03%	\$597	\$20,502
Engineering Inspections	\$2,701			\$2,701
Testing	\$31,488			\$31,488
Repairs & Maintenance	\$86,437		\$2,593	\$89,030
Operations Management	\$28,800			\$28,800
Total Operating Expenses	\$294,082		\$20,851	\$314,933

No electricity hikes expected now

Billing is 7.5% of revenues  
Bad Debt is 1.8% of revenues

Docket 09-00034

Lynwood Utility Corporation			
2008	Per Books	Adjustments	As Adjusted
Revenues			
Sewer Fees	\$539,105	\$0	\$539,105
Inspection Fees	\$1,000	\$0	\$1,000
Late Charges	\$8,163	\$0	\$8,163
Total Revenues	\$548,268	\$0	\$548,268

#### Operations And Expenses

Operating Expenses	\$294,082	\$20,850	\$314,932
Customer Accounting	\$55,300	\$0	\$55,300
General & Administrative	\$86,515	\$1,590	\$88,105
Taxes Other Than Income	\$20,716	\$0	\$20,716
Regulatory Expenses	\$21,524	\$12,000	\$33,524
Depreciation & Amortization, Net	\$126,319	-\$4,750	\$121,569
Total Operation Expenses	\$604,456	\$29,690	\$634,146
Income (Loss)	(\$56,188)	\$29,690	(\$85,878)

Docket 07-0007 (company sched. 2)			
Lynwood Utility Corporation			
2005	Per Books	Adjustments	As Adjusted
	\$484,783	\$26,012	\$510,795
	\$9,000	(\$2,250)	\$6,750
	\$7,143	\$390	\$7,533
	\$500,926	\$24,152	\$525,078
	\$431,315	\$48,023	\$479,338
	\$0	\$54,000	\$54,000
	\$32,298	\$968	\$33,266
	\$0	\$0	\$0
	\$0	\$28,800	\$28,800
	\$44,811	\$6,130	\$50,941
	\$508,424	\$137,921	\$646,345
	(\$7,498)	\$137,921	(\$121,267)

Company exhibit

Before the

**TENNESSEE REGULATORY AUTHORITY**

IN RE:

LYNWOOD UTILITY CORPORATION'S  
PETITION FOR ADJUSTMENT OF RATES

)  
)  
)  
)  
)

DOCKET NO. 09-00034

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**AFFIDAVIT**

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I, Dave Peters, Regulatory Analyst, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.



DAVE PETERS

Sworn to and subscribed before me  
this 19th day of June, 2009.

  
NOTARY PUBLIC



My commission expires: Aug. 23, 2011

1 **Q. Please state your name for the record.**

2 A. My name is Dave Peters.

3  
4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by the Consumer Advocate and Protection Division ("CAPD") in  
6 the Office of the Attorney General for the state of Tennessee ("Office") as a  
7 Regulatory Analyst.

8  
9 **Q. How long have you been employed as a financial professional?**

10 A. I have been employed as a finance professional in the private and public sector  
11 for approximately 25 years. Before my current employment with the Office, I  
12 was employed by Dell Computers as a site Controller in the Dell Fulfillment and  
13 Logistics organization. Formerly, I was employed with Nortel Networks in a  
14 variety of financial positions, the last being as a program manager in the  
15 Telecommuting program. My responsibilities included budgeting, forecasting,  
16 internal controls, monthly close, balance sheet reviews and extensive financial  
17 reporting to management.

18  
19 **Q. What is your educational background and what degrees do you hold?**

20 A. I have a Bachelors degree in Business Administration from Tennessee  
21 Technological University with a major in Accounting and a Masters degree in  
22 Business Administration from Belmont University. I am also a Tennessee  
23 Certified Public Accountant.

24  
25 **Q. Would you briefly describe your responsibilities as a Regulatory Analyst with  
26 the CAPD?**

27 A. I prepare testimony and financial exhibits in rate proceedings as an employee  
28 with the CAPD. Additionally, I review tariffs filed in the Tennessee Regulatory  
29 Authority ("TRA") by certificated utilities operating in Tennessee.

30  
31 **Q. What is the purpose of your testimony?**

32 A. The purpose of my testimony is to represent the forecasted financial exhibits  
33 prepared by the CAPD ("Exhibit CAPD"), related Appendices, and provide my  
34 exhibit ("Exhibit CAPD work papers") of work papers for forecasted Operation  
35 and Maintenance ("O&M") Expenses, forecasted Depreciation Expense,  
36 forecasted Regulatory Expenses, Taxes Other Than Income, forecasted General  
37 and Administrative Expenses, and forecasted Rate Base, for Lynwood Utilities



1 Corporation (LUC) for the Lynwood adopted attrition year ended December 31,  
2 2009.

3  
4 **Q. What is a public utility?**

5 A. In the context of this case, a public utility is a business formed as a shareholder-  
6 owned corporation. Even though the public utility in this case is a for profit  
7 corporation, it is also important to note that this public utility is:

8  
9 an organization that has been designated by law as a business  
10 affected with a significant public interest, and that also possesses all  
11 of the following characteristics: (1) The business is essentially free  
12 from direct competition, i.e., it operates in a monopolistic  
13 environment; (2) The business is required by law to charge rates for  
14 its services that are reasonable and not unjustly discriminatory; (3)  
15 The business is allowed to earn (but not guaranteed) a "reasonable"  
16 profit; and (4) The business is obligated to provide adequate service  
17 to its customers, on demand.<sup>1</sup>

18  
19 **Q. Does Lynwood possess these public utility characteristics?**

20 A. Yes. Lynwood is a shareholder-owned public utility that has been granted the  
21 advantage of operating in a monopolistic environment in exchange for special  
22 obligations, namely, the requirement to provide adequate service to all  
23 customers at rates that are just, reasonable, and non-discriminatory. This  
24 regulatory framework should guide all of the TRA's decisions in this matter.

25  
26 **Q. Are Lynwood's results audited?**

27 A. No. Lynwood's financial statements are unaudited and the CAPD does not have  
28 the authority to audit a public utility's books. This testimony is based on my  
29 reliance on Lynwood's financial record keeping and their preparation of the  
30 financial statements in this docket.

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34  

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<sup>1</sup> *Accounting for Public Utilities*, Hahne and Aliff §1.01.

1 **Q. Please summarize the results of the CAPD forecast of Lynwood's earnings for**  
2 **the attrition year.**

3 A. The CAPD forecast of Lynwood earnings for the attrition year results in a  
4 recommended \$47,185<sup>2</sup> increase in rates. This translates to a rate increase of  
5 7.96% as opposed to Lynwood's requested increase of 33.82%. This is shown in  
6 schedule 1, Revenue Deficiency. The CAPD's rate recommendation is based on  
7 its projection of adjusted net operating income ("adjusted NOI"), rate base and  
8 overall rate of return of 7.5% which is the carrying cost of Lynwood's long-term  
9 debt. Lynwood does not have any positive equity as of December 31, 2008,  
10 therefore that is why the CAPD recommends using the 7.5% rate<sup>3</sup>.

11  
12 **OPERATION AND MAINTENANCE EXPENSES:**

13  
14 **Q. Please describe your forecasting methodology for Operation and Maintenance**  
15 **Expenses.**

16 A. One key projection that must be made in determining the adjusted NOI is the  
17 projection of all expenses.

18  
19 **Q. Did you make any normalizing adjustments to the test period ending**  
20 **December 2008?**

21 A. Yes. The CAPD normalized the test period ending December 2008 by removing  
22 Non-Recurring expenses, specifically in the area of regulatory expenses, which  
23 were not subject to the CAPD expense growth rate. The appropriate rate  
24 treatment of these particular items will be discussed later in my testimony.

25  
26 **Q. What are the significant differences between the CAPD and Lynwood in**  
27 **expenses and revenues for the forecasted attrition year?**

28 A. In Exhibit CAPD work papers, work paper Operation Maintenance Expenses  
29 Schedule 6 provides a reconciliation of the differences in the calculation of all  
30 expenses. Additionally, CAPD Income Statement Schedule 5 shows the  
31 reconciliation between Lynwood Revenues and CAPD Revenues.

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<sup>22</sup>Exhibit CAPD, Schedule 1, Line 8.

<sup>3</sup> Exhibit CAPD, Schedule 10, Line 13.

1 The significant differences in Expenses for the attrition year are: (1) \$10,466 in  
2 Purchased Power; (2) \$8,371 in Regulatory Expenses; (3) \$13,842 in Depreciation  
3 and Amortization, (4) \$3,147 in Sludge Removal and (5) increase the TRA  
4 inspection fee by \$845. The total difference in expense results in a CAPD forecast  
5 that is \$34,981<sup>4</sup> lower than the forecasted amount of Lynwood.

6  
7 **Q. What are the issues with Lynwood's forecast of Purchased Power?**

8 A. Lynwood is forecasting \$62,794<sup>5</sup> for the attrition year ended December  
9 2009 in its O&M Expenses. This represents a 20% increase over actual 2008 costs.  
10 Per Lynwood assertions, this was adjusted from \$52,328 to \$62,794 because of an  
11 anticipated Tennessee Valley Authority (TVA) 20% rate increase. This was  
12 announced in the fall 2008 and has since been eliminated. TVA issued a press  
13 release on 5/15/2009 that credits this rate cut "effectively erasing a huge rate  
14 boost approved last year to offset rising fuel costs. This latest announcement is  
15 the third rate cut in the last 3 fiscal quarters and will take effect July 1, 2009."  
16 Therefore, the CAPD removes this expense change from 2008 actuals.

17  
18 **Q. What are the issues with Lynwood's forecast of Regulatory Expenses?**

19 A. Lynwood shows Regulatory Expenses for the test year of \$17,371. This number  
20 is comprised of a monthly amortization of \$1,250/month for the amortization of  
21 previous rate cases and some actual payments of \$2,371<sup>6</sup>. The adjustment for  
22 amortizing the Regulatory Expenses from this docket has been reduced from  
23 \$12,000 to \$6,000 as CAPD has reduced the estimated Regulatory cost of this case  
24 from \$36,000 to \$18,000. \$18,000 is a more realistic cost based on the amount of  
25 expenses the Regulatory Expenses are in relation to the total expense increases  
26 approved. The CAPD excludes this amount as these payments represent non-  
27 recurring expenses. The other component of Regulatory Expenses is the Utility  
28 Regulatory Assessment Fee of \$4,153.

29  
30  
31  

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<sup>4</sup>CAPD work paper, Index of Work Papers, Schedule 4, Line 8.

<sup>5</sup>CAPD work paper, Index of Work Papers, Schedule 2, Line 8.

<sup>6</sup> Company work paper, Schedule E-5, Line 6.

1 **Q. What are the issues with the Lynwood's forecast of depreciation and**  
2 **amortization expenses?**

3 A. Lynwood is showing the depreciation and amortization expense in their  
4 company schedule R/E of \$121, 569. This expense should be the net of the  
5 additions to depreciation and the amortization of contributions in aid of  
6 construction (CIAC). When you total up those specific changes in their  
7 schedules B4 (Analysis of CIAC) and B3 (Depreciation Analysis) the result is an  
8 expense of \$107,727. The difference is \$13,842 and CAPD shows that as a  
9 reduction of expenses in the CAPD schedule 4 (Income Statement at Current  
10 Rates)<sup>7</sup>.

11  
12 **Q. Please discuss your issue with Sludge Removal Expenses for Lynwood's**  
13 **forecast attrition year.**

14 A. The company's test year expenses for sludge removal costs contain  
15 expenses attributable to extraneous sludge removal related to odor control  
16 measures which account for 2/3 of the total test year costs of sludge removal.  
17 Thus, sludge removal costs which the company has already deferred in account  
18 186.7 are presented in the company's test year as recurring expenses.  
19 Although requested in discovery, the company did not provide invoices for  
20 sludge removal costs citing the expense of production. However, a comparison  
21 of invoices on file in Docket 08-00060 and ledger entries provided in this docket  
22 show that a portion of sludge removal expenses in the 2008 test year are already  
23 being paid for through the surcharge approved in Docket 08-00060.

24  
25 **Q. Given the interplay of Docket 08-00060 and the company's test year**  
26 **in this docket, do you have a recommendation as to the proper level of sludge**  
27 **removal costs for the 2008 test year?**

28 A. Yes, I recommend adoption of the company's 2008 test year figure for  
29 sludge removal.

30  
31 **Q. What is the basis of your recommendation?**

32 A. First, there have been no publicly noticed consumer complaints  
33 regarding odors from Lynwood since March 10, 2008. The extra sludge removal  
34 expense may be justified as a recurring expense in curtailing odor if regular and  
35 recurring "extraneous" sludge removal has functioned to reduce consumer

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<sup>7</sup> CAPD work paper, Index of Work Papers, Schedule 4, Line 4.

1 complaints. Second, allowing the company to continue a surcharge or tracking  
2 mechanism for these issues would no longer be justified, especially if the  
3 "extraneous" sludge removal is a part of a permanent solution to the odor issue  
4 that will result in a recurring expense. Third, Docket 08-00060, which addressed  
5 and authorized an odor control surcharge, was expensive for consumers. In total,  
6 the company sought \$45,252 in that docket for various expenses, ranging from  
7 extraneous sludge removal to extra salary for the owner, Mr. Tyler Ring. The  
8 settlement between the Consumer Advocate and the company in Docket 08-00060  
9 resulted in Lynwood consumers paying a volumetric surcharge on their bills to  
10 allow the company to recover \$30,973. Of the settlement amount, approximately  
11 \$5,909 or, nearly 20% of the settlement amount, was dedicated solely to the legal  
12 and accounting fees incurred by the company in pursuing the docket. Due to the  
13 administrative burden and expense of proceedings like Docket 08-00060, it would  
14 be reasonable to allow the company's 2008 test year figure for sludge removal in  
15 order to eliminate any future effort by Lynwood to recover what it considers  
16 deferred odor control costs.

17  
18 **Q. Please discuss income taxes.**

19 A. First of all, Lynwood is a S corporation for Federal Income Tax purposes.  
20 Therefore, any Federal Income Tax basis flows through to the owner's individual  
21 tax returns. Secondly, the return component is purely the payment of interest  
22 expense to the long-term debt obligations. The company has no equity basis.  
23 Consequently, the return component consists only of long-term debt obligations.  
24 Therefore, all of the interest expense is deductible for state excise tax purposes,  
25 resulting in no taxable income to the company.

26  
27 **Q. Please discuss your issue with Tap Fees for Lynwood's forecast attrition year.**

28 A. In Lynwood's 4/9/2009 data response page 3, they show 2008 Tap Fee revenues  
29 of \$17,500 which equates to 5 customers at \$3,500/tap. However, in the same  
30 data response, they show the average number of customers growing from 811  
31 customers in 2007 to 829 in 2008. At the same \$3,500/tap Lynwood revenues  
32 would be higher by \$45,500. The CAPD schedule 5 reflects this change<sup>8</sup>.

33  
34  
35  

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<sup>8</sup> Company work paper, Data Response 4/9/09, Page 12.

1 **Q. Do Lynwood's rates compare favorably to neighboring wastewater systems?**

2 A. No. Based on a monthly usage of 5,000 gallons of water treated, Lynwood  
3 currently pays \$32.65/month. This puts their rates higher than all but 17% of all  
4 wastewater systems in Tennessee. If the full rate increase is granted (33.82%),  
5 Lynwood would be 139<sup>th</sup> out of 145 in all of Tennessee (higher than 96% of all  
6 wastewater systems in TN). Locally, the same bill in Franklin is \$20.49, Spring  
7 Hill is \$14.34 and the Harpeth Valley Utility district charges \$28.25 and  
8 statewide, the median bill is \$23.00. The comparative numbers above were based  
9 on 5,000 gallons of treated water per month<sup>9</sup>. However, the average Lynwood  
10 customer uses approximately 8,500 gallons a month resulting in an average bill  
11 of approximately \$57. If Lynwood receives the entire rate increase in this docket,  
12 the average customer will pay approximately \$76 per month. Additionally,  
13 Lynwood customers don't get a discount in the summer months (other utilities  
14 don't charge sewage treatment for water used for watering their lawns and  
15 gardens) whereas all of the neighboring systems do offer such a program. Like  
16 all companies operating in this difficult economic climate, Lynwood needs to  
17 focus more on cost containment and less on rate relief. Most companies are  
18 trimming costs to retain customers, not increase prices.

19  
20 **Q. What are the issues with Lynwood's calculation of Rate Base?**

21 A. By taking the final settlement numbers of Lynwood's rate base in the 2006 rate  
22 case, and computing all of the additions and subtractions in the years 2007 and  
23 2008, CAPD arrives at a new rate base of \$495,839. This is \$533,115 lower than  
24 Lynwood's stated rate base of \$1,028,956. The differences are calculated as  
25 follows:

26 1<sup>st</sup>) Utility Plant In Service – By taking the ending Utility Plant In Service account  
27 from the 2006 case of \$2,806,755 and adding all of the plant additions for 2007  
28 and 2008 less the collection systems account (this was not included in the 2006  
29 case), the net result is an adjusted plant in service balance of \$2,931,252. This  
30 number is \$191,089 less than Lynwood's new plant in service balance of  
31 \$3,122,341.

32 2<sup>nd</sup>) Cash Working Capital – Lynwood bases their working capital requirements  
33 on the lag time between revenues billed and customers paying. This results in a  
34 working capital balance of \$52,574. CAPD bases working capital requirements

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<sup>9</sup> Allen & Hoshall Tennessee Water and Sewer Rate Survey, June 2008.

1 on 1/12 of total expenses (less depreciation which is a non-cash expense). This  
2 results in a working capital balance of \$39,845, a difference of \$12,729.

3 3<sup>rd</sup>) Accumulated Depreciation - By taking the ending Accumulated  
4 Depreciation account from the 2006 case of \$1,263,822 and adding all of the  
5 depreciation additions for 2007 and 2008 less the collection systems account (this  
6 was not included in the 2006 case), the net results is an adjusted accumulated  
7 depreciation balance of \$1,640,300. This number is \$38,248 less than Lynwood's  
8 new accumulated depreciation balance of \$1,602,052.

9 4<sup>th</sup>) Contributions In Aid Of Construction - By taking the ending Contributions In  
10 Aid Of Construction (CIAC) account from the 2006 case of \$1,038,225 and adding  
11 all of the CIAC additions for 2007 and 2008 less the amortization of CIAC for  
12 2007 and 2008, the net results is an adjusted CIAC balance of \$989,102. This  
13 number is \$301,578 less than Lynwood's new CIAC balance of \$687,524. There  
14 were two entries booked in 2007 that make up this difference and it was a reclass  
15 from CIAC to Retained Earnings. The CAPD includes this amount as there is no  
16 justification to reclass items from CIAC to Retained Earnings<sup>10</sup>.

17  
18 **Q. What is your proposal for Rate Design?**

19 A. Lynwood has a minimum charge of \$15 per month and a volumetric charge of  
20 \$6.53 per 1,000 gallons. The company has proposed to increase the minimum  
21 charge to \$20 per month and increase the volumetric charge to \$8.78 per 1,000  
22 gallons. The CAPD proposes a three tiered volumetric rate which is similar to all  
23 other neighboring waste water utilities and is a more equitable method of rate  
24 recovery for the consumers. The CAPD reserves the right to assist in proposing  
25 this new rate making methodology once the CAPD receives more information  
26 concerning customers by subdivision and usage by customers.

27  
28 **Q. Does this conclude your testimony?**

29 A. Yes, it does.

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<sup>10</sup> CAPD work paper, Index of Work Papers, Schedule 3, Line 8.