

BRANSTETTER, STRANCH & JENNINGS, PLLC

ATTORNEYS AT LAW  
227 SECOND AVENUE NORTH

FOURTH FLOOR  
NASHVILLE, TENNESSEE 37201-1631  
TELEPHONE (615) 254-8801  
FACSIMILE (615) 250-3937

CECIL D. BRANSTETTER, SR.  
C. DEWEY BRANSTETTER, JR.  
RANDALL C. FERGUSON  
R. JAN JENNINGS \*  
JOE P. LENISKI, JR.  
DONALD L. SCHOLES  
JAMES G. STRANCH, III  
J. GERARD STRANCH, IV  
JANE B. STRANCH

\*ALSO ADMITTED IN GA

ASSOCIATES:  
B. DENARD MICKENS  
STEVEN J. SIMERLEIN \*  
STACEY K. SKILLMAN \*\*  
MIKE STEWART  
J. D. STUART  
MICHAEL J. WALL

OF COUNSEL:  
ROBERT J. RICHARDSON, JR \*\*\*

\*ALSO ADMITTED IN CA  
\*\*ALSO ADMITTED IN KY  
\*\*ONLY ADMITTED IN OH

July 31, 2009

Sara Kyle, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

*Via E-mail and Hand Delivery*

filed electronically in docket office on 07/31/09

Attention: Sharla Dillon

Re: Petition of Lynwood Utility Corporation to Change and Increase Rates and  
Charges  
Docket No. 09-00034

Dear Chairman Kyle:

I am writing you in follow up to an e-mail I received from Gary Hotvet, the Hearing Officer, in this docket. In an e-mail to Ryan McGehee and me, Mr. Hotvet asked for a response to the following question, "Without referencing prior settlement agreements, please explain why collection systems should be included or excluded from rate base." The response of Lynwood Utility Corporation is set forth in this letter.

The costs incurred by the Company related to its collection system should be included in the Company's rate base because such component costs should be charged to the Company's Plant in Service. The Company's position is supported by Sections 13, 14 and 15 of the NARUC Accounting Instructions for Utility Plant in Service, a copy of which are enclosed with this letter. In 2007 the Company undertook the preparation of a detailed property study related to the Company's plant records, depreciation calculations and contributions in aid of construction to arrive at the proper Utility Plant in Service amounts for the Company's Utility Plant in Service account. The portion of the property study related to the Company's collection system was completed in the middle of 2007. The results of the property study related to the Company's collection system for the years before 2007 were recorded as of January 1, 2007. The 2007 and 2008 collection system additions were determined by the Company's construction order system, and the collection system additions in 2007 and 2008 were based upon costs incurred and recorded on the Company's construction work orders.

Sara Kyle, Chairman  
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Consistent with Sections 13, 14 and 15 of the NARUC Accounting Instructions for Utility Plant, internal costs the Company incurred in the addition of taps to the Company's collection system should be included in the Utility Plant in Service Account and become a part of the Company's rate base. Enclosed with this letter is a description of the work performed and the costs incurred by the Company related to the installation of a new tap to the Company's collection system, and the Company's calculation of the internal costs incurred for a new tap connection for taps before January 1, 2007.

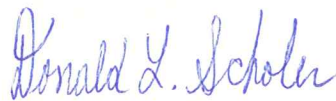
Additions to the Company's collection system of \$16,500 for 2007 and \$22,839 for 2008 were recorded in the year the costs were incurred and capitalized.

In the event the additions for the collection system are not considered a part of the Company's rate base, the costs incurred for the test year of 2008 in the amount of \$22,839 must be added back to the attrition year operating expenses to achieve a proper accounting for the costs incurred.

I have enclosed five copies of this letter. This letter is being filed electronically by electronic mail this same date. A copy is being served on Ryan McGehee, Counsel for the Consumer Advocate. Please return the extra copy of this letter stamp filed to me.

If Mr. Hotvet or the Staff needs further information on this issue, the Company is willing to provide any supplementation necessary.

Sincerely yours,



DONALD L. SCHOLES

c: Gary Hotvet, Hearing Officer  
Ryan McGehee  
Tyler Ring  
Jim Ford

## ACCOUNTING INSTRUCTIONS

as are proper or necessary to reflect the results of operating each other department.

### 13. Utility Plant - To be Recorded at Cost

A. All amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service. All other utility plant shall be included in the accounts at the cost incurred by the utility except as otherwise provided in the texts of the intangible plant accounts. Where the term "cost" is used in the detailed plant accounts, it shall have the meaning stated in this paragraph (See Definition 9).

B. When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis. In the entry recording such transaction, the actual consideration shall be described with sufficient particularity to identify it. The utility shall be prepared to furnish the Commission the particulars of its determination of the cash value of the consideration if other than cash.

C. When property is purchased under a plan involving deferred payments, no charge shall be made to the utility plant accounts for interest, insurance, or other expenditures occasioned solely by such form of payment.

D. Utility plant accounts shall be charged with construction costs (estimated, if not known) of the utility plant contributed by others or constructed by the utility using contributed cash or its equivalent. For contributed utility plant, the accumulated depreciation or amortization account shall be charged with the estimated amount of depreciation or amortization applicable to the property at the time it was contributed to the utility. Account 271 - Contributions in Aid of Construction shall be credited with the net of the amounts charged to the plant and the accumulated depreciation or amortization accounts. For plant constructed using contributed cash or its equivalent, account 271 - Contributions in Aid of Construction shall be credited with the amount of the cash or its equivalent contribution.

### 14. Utility Plant - Components of Construction Cost

The cost of construction of property chargeable to the utility plant accounts shall include, where applicable, the cost labor, materials and supplies, transportation, work done by others for the utility, injuries and damages incurred in construction work, privileges and permits, special machine service, allowance for funds used during construction and such portion of general engineering, administrative salaries and expenses, insurance, taxes and other analogous items as may be properly includible in

## ACCOUNTING INSTRUCTIONS

construction cost.

Note: -- The cost of individual items of equipment of less than \$400 or of short life, including small portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction unit.

### 15. Utility Plant - Overhead Construction Costs

A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, legal expenses, insurance, injuries and damages, relief and pensions, taxes and allowance for funds used during construction, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, so that each job or unit shall bear its equitable proportion of such costs and that the entire costs of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

B. As far as practicable, the determination of payroll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities so that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

### 16. Utility Plant - Purchased or Sold

A. When utility plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, the costs of acquisition, including expenses incidental thereto properly includible in utility plant, shall be charged to account 104 - Utility Plant Purchased or Sold.

B. The accounting for the acquisition shall then be completed as follows:

- (1) The original cost of plant, estimated if not known, shall be credited to account 104 - Utility Plant Purchased or Sold, and concurrently charged to the appropriate utility plant in service accounts and account 102 - Utility Plant

## **DESCRIPTION OF LYNWOOD TAP PROCEDURES**

1. Office manager receives inquiry phone call and gives out initial information.
2. Office manager notifies management of inquiry.
3. Office manager begins process of adding new customer.
4. Management makes site visit to confirm location.
5. Management notifies E. Robert Alley and Associates (outside Engineer).
6. As built plans located and revised.
7. Capacity study initiated.
8. Site visit or visits with Builder/Owner to determine additional work.
9. Builder/Owner pays tap fee.
10. Water Department notified of new customer.
11. Engineering site inspection completed after connection to mainline.
12. As built drawing of individual service line obtained upon completion.
13. Archiving of as built mapping.
14. Review of plans for completing tap connection.
15. Communication on materials to be used and review of materials.
16. Inquiries to legal counsel on any easement issues or other legal issues.

Many inquiries for taps come through the office which may require multiple site visits that ultimately may never produce a tap fee or a customer. There are instances where four or five visits have been made over a several year period that finally produces a customer. Any offsite sewer line work necessary for a customer tap requires additional engineering plans as well as State approval and may raise legal issues. A substantial amount of time can be spent in responding and following up on such inquiries which may produce very little results.

**LYNWOOD UTILITY CORPORATION  
PROPERTY STUDY - COLLECTION SYSTEM ADDITIONS**

<b>YEAR</b>	<b>UNITS</b>	<b>ICR</b>	<b>ADDITIONS</b>
1998	2	500	1,000.00
1999	22	500	11,000.00
2000	20	500	10,000.00
2001	39	500	19,500.00
2002	19	500	14,250.00
2003	22	500	16,500.00
2004	40	500	30,000.00
2005	48	500	36,000.00
2006	18	500	13,500.00
2007	22	500	16,500.00

**Internal Cost Rate (\$37.50) x Internal Hours (20) = \$500**  
**Internal Hours Based on Lynwood Tap Procedures Time Estimates.**