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September 28, 2009

Ms. Darlene Standley, Chief
Utilities Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Subject: Docket No. 09-00056
Petition of Cartwright Creek, LLC to Change and Increase Rates and Charges
Response to TRA Staff Comments of September 9, 2009 Status Conference

Dear Ms. Standley,

Attached for filing is Cartwright Creek's response to the TRA staff comments in September 9, 2009 Status Conference.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce E. Meyer", is written over a light blue horizontal line.

Bruce E. Meyer
Vice President – Operations
Cartwright Creek, LLC

Copies: Sharla Dillon, TRA

- Electronic version via email
- Original and five hard copies, and CD containing Word and Excel versions of text and attachments via FedEx.)

Mary Leigh White – CAPD (via email)

Henry Walker – Counsel for Waterbridge (via email)

**Cartwright Creek Response to TRA Staff Comments of
September 9, 2009 Status Conference**

Note: For questions in this document, Cartwright Creek has used the TRA Staff questions taken from the transcript of the September 9, 2009 Status Conference.

Questions on Handout 1

Q. “What are the appropriate rates, and do you need to adjust your Schedule 32e to reflect the appropriate rates?”

A. Please see the revised Schedule 32e included as Attachment A herein. The rates shown in Schedule 32 reflect the rates in the Petition as well as the existing tariff. Attachment A also reflects the updated number of commercial and residential units.

Q. “And additionally related to that item, we know the rates that you're supposed to be charging because we have your tariff. We want you to verify that the rates that you're supposed to be billing per your tariff are indeed the rates that you are billing, and we would just like a written statement to that effect.”

A. Cartwright Creek is billing the rates approved in its existing tariff, which can be found on Revised Page 2 (Effective August 1, 2008) of its existing tariff. (The page TRA staff attached as page 2 of the TRA’s handout 1 on September 9, 2009.)

Handout 2

Q. “If you'll note on that schedule, the response to the first staff data request Number 11, we have scheduled out two of the dates that you provided information for. Immediately following that, you'll find your response to data request Number 11. If you'll just take a moment and read your response to Number 11 and compare that to the numbers the staff has listed on the summary schedule and see if you have any disagreement with those numbers.I guess my question is not to verify that those are your number of customers but just verify that is what you have responded in writing in response to Number 11.”

In the response to Number 11, Cartwright Creek states that Cartwright Creek does not record monthly totals of each type of customer because the number of each type of customer is essentially the same from month to month. This is true, as the customer numbers are essentially the same from month to month and Cartwright Creek does not count and record the number of each type monthly.

1
2 The example customer counts from two months presented in the response to Number 11 (July 7,
3 2009 Cartwright Creek Response to TRA Staff Data Request No. 1) were hand-counted from
4 customer lists from July 31, 2007 and June 26, 2009.

5
6 The Consumer Advocate, in its First Discovery Request, also asked for an historical monthly
7 customer count. Therefore, responding to both the requests of TRA and CAPD, Cartwright
8 Creek undertook a manual monthly customer count using general ledgers. Cartwright Creek
9 provided Exhibit 29.1 (August 3, 2009 Response to CAD First Discovery Request) to
10 demonstrate that the number of commercial and residential customers does not change
11 substantially from month to month. Unfortunately, that table contained errors, which are now
12 corrected in a revised version provided Attachment B.

13
14 There is an insignificant difference in the customer counts using the historical records and two
15 hand-count methods. Cartwright Creek believes this is due to a number of former homes that
16 were counted as residential units but now have been converted to small business use.

17
18 The current customer count is reflected on Attachment A.

19
20 **Q. “Also on that page we've listed your response to the second data request Item 32 e,**
21 **Attachment K. And I guess instead of going through each of these and belaboring the**
22 **point, we need to know how many customers you have in each category at the current time**
23 **or your -- the latest count that you have.”**

24
25 A. Please see the answer to the previous question and Attachment A for the customer count in
26 each category.

27
28 Handout marked 3&4

29
30 **Q. “The staff's question here is: If we don't have volumetric data, how can we price out the**
31 **revenues that the company collects for commercial customers? And we would ask the**
32 **company to attempt to get this information again and give us a better answer to this**
33 **question.”**

34
35 A. Cartwright Creek requested volumetric data from the City of Franklin for the commercial
36 customers from 2007 to the present. Cartwright Creek received Franklin's response on
37 September 25. It will take approximately two weeks to sort, resolve discrepancies, and organize
38 the information. Cartwright Creek will then submit the data to TRA.

1 Similarly, Cartwright Creek contacted Harpeth Valley Utility District for equivalent volumetric
2 information from the single commercial customer it serves within Cartwright Creek's service
3 area. Harpeth Valley asked for written permission from the customer to release the data.
4 Subsequently, the customer provided hard copies of its water bills from three meters. This
5 information will be sorted and organized and submitted to TRA with the Franklin data.
6

7 **Q. "And then my next -- I guess I would look at this as a request item. In absence of**
8 **monthly volumetric commercial usage, could you at a very minimum provide for 2007,**
9 **2008 year to date July 31, 2009, the average number of commercial customers and the total**
10 **commercial volumes used?"**
11

12 A. The average customer counts are shown on Attachment B. Commercial volumes were not
13 available for this period.
14

15 Handout marked 5&6
16

17 **Q. "Number 1, we would like to know if the company agrees with the consumer advocate's**
18 **exhibit of the company 2009 proposed numbers. So all I'm asking there is: In the**
19 **company's opinion, has the advocate accurately reflected the company's case in the**
20 **company column? And if not, please explain why and provide your own calculations."**
21

22 A. Cartwright Creek's figures have been slightly revised since the issuance of the Consumer
23 Advocate's "Schedule 2", (which was included the TRA staff labeled handout 5&6 in the
24 September 9, 2009 meeting). Therefore, the Cartwright Creek column on that handout from the
25 September 9 status conference does not reflect Cartwright Creek's current case.
26

27 Please see Attachment C, which contains revisions to the aforementioned "Schedule 2".
28 Attachment C contains revisions due to the following:
29

- 30 - Elimination of both \$8,000 in revenue and \$8,000 in expenses related to the Waterbridge
31 Facility.
- 32 - Modified purchased power amount to reflect further analysis of projected expenses in the
33 attrition year. (The reason for this adjustment is described in detail on page 3 of the
34 "Rebuttal Testimony of Cartwright Creek's Robert Cochrane" filed September 18, 2009.)
- 35 - Revenue adjustments for the updated number of customers and correct proposed tariff
36 amounts.
37

1 **Q. “The next question is: Are the revenues shown on this schedule current rates and**
2 **forecasted customers and volumes or proposed rates and forecasted customers and**
3 **volumes.”**

4
5 A. The revenues shown reflect current customers at the proposed rated.
6

7 **Q. “Our last question regarding this exhibit is: Provide a price out showing how the**
8 **revenues on CAPD Schedule 2 were calculated. Your response should provide residential**
9 **customer counts by bedroom and commercial customers by volume.Yes. We need a**
10 **price out showing the revenue -- on how the revenue on CAPD Schedule 2 were calculated.**
11 **Your response should provide the number of residential customers by number of bedroom**
12 **and the commercial customers by volumes.”**

13
14 A. Attachment A, which is revised Schedule 32, provides the price out. Commercial customer
15 volumes are estimated as shown on Attachment A. This revenue carries over to the “revenue on
16 CAPD Schedule 2”, a revised version of which is provided as Attachment C, described above.
17

18 Handout marked 7
19

20 **Q. “It comes from your 2008 annual report filed with the authority, Page F-4. If you will**
21 **direct your attention to the first line under assets, utility plant in service, 1,059,587. That's**
22 **your total plant in service. Then if you will refer to the next page, which is F-8 from the**
23 **same annual report, you show contributions in aid of construction of \$1,150,293. We**
24 **would just like an explanation of how your contributions in aid of construction exceed your**
25 **total plan and a reconciliation letting us know which number is correct.”**

26
27 **A.** The utility plant in service is based upon historical recorded values of equipment and
28 facilities as reported in the annual reports. See the top half of the table on Attachment C.
29 Contributions in aid of construction are based upon gross tap fees since the plant was constructed
30 in the 1970s. Therefore, both numbers are correct.
31

32 The Contributions in Aid of Construction included provisions for income tax and interest
33 expense. In addition, the company has not amortized Contributions in Aid of Construction in a
34 similar manner as it has depreciated its utility plant in service. Please see the answer to the final
35 question in this document for further explanation.
36

37 **Q “The second part of this question is: If you look at the third page that was passed out,**
38 **it's titled Staff Data Request Number 2, Item Number 33, Attachment 3 2 -- L. Pardon me.**
39 **Attachment L. Our question is simply for the company: Is this your price out ...Of rate**
40 **base.”**

1
2 A. Yes.

3
4 **Q. “Further looking at Attachment L, we would like to know how much of that plant is**
5 **contributed plant And then one final question: Does the company have a rate base, or is all**
6 **plant contributed?”**

7
8 A. None of the plant on Attachment L was contributed. In 2005, Cartwright Creek assumed the
9 prior debt and the historical in-plant service of Cartwright Creek Utility Company (CCUC).
10 Cartwright Creek Utility Company was and Cartwright Creek, LLC is an investor owned utility.
11 The initial plant was funded by owner loans for which Cartwright Creek Utility Company was
12 never able to generate sufficient cash flows to fully repay principal and interest.

13
14 The amount of Contributions in Aid of Construction reflects gross tap fees received since the
15 plant was constructed in the mid 1970’s. These contributions represent a recovery of the original
16 facilities and subsequent improvements.

17
18 Cartwright Creek’s balance sheet does not reflect the total contributed value of the collection
19 system, comprised of over 40,000 linear feet of sewers, a large portion of which was likely
20 contributed by developers. Cartwright Creek is responsible for the collection system’s ongoing
21 repair as explained in the original petition, including \$75,000 for repairs in 2006.

22
23 Cartwright Creek did not amortize or allocate the amount of contributions in aid of construction
24 (the collected tap fees) reflected in the financial records. Most of the contributions in aid of
25 construction were received at a time when such contributions were subject to income taxes. To
26 further strain the finances of Cartwright Creek, regulatory commissions did not allow CIAC
27 property to be included in the investment base upon which Cartwright Creek was allowed to earn
28 a return. Although the taxation of CIAC was eliminated in the mid 1990’s, water and sewer
29 utilities, including Cartwright Creek, were severely impacted by the increased taxation due to the
30 large amounts of CIAC funds that they received. Therefore, net plant-in-service shown in the
31 Annual Report is overstated, as a portion of the cash contributions in aid of construction included
32 the adverse impact of incomes taxes.

33
34 Cartwright Creek believes that a portion of the tap fees collected should have been allocated to
35 current income to offset the impact of income taxes and the interest expenses on the initial
36 ownership loans that funded the treatment and collection system. These costs and several large
37 repairs to sewers and the facility have added to Cartwright Creek’s accrued operating deficit in
38 excess of \$1,952,458 (\$892,871 net of \$1,159,587 Contributions in Aid of Construction).
39 Cartwright Creek also notes that the Contributions in Aid of Construction figure has not been

1 amortized as part of the current rate base. As a result, Cartwright Creek has not recovered any of
2 the actual depreciation expense in its rates as is typical of most utilities. The \$125,600 net plant
3 figure noted in prior testimony by Mr. Cochrane represents gross assets in the plant, excluding
4 the land, less total depreciation. Cartwright Creek's total rate base on which it is entitled to a
5 return is \$449,905. It represents the net asset value of the facility, including land, plus the value
6 of the funds restricted to support the TRA required Letter of Credit posted by Cartwright Creek to
7 comply with financial security requirements. Attachment C shows this.

8
9 Cartwright Creek disagrees with the CAPD recommendation to eliminate any provision to
10 amortize the cost of the facility as it unduly restricts Cartwright Creek's ability to secure or
11 borrow funds for the repair and replacement of the facility. Cartwright Creek requests that the
12 TRA consider an additional surcharge in lieu of allowing Cartwright Creek to include
13 depreciation expense in its operating expenses in determining the required annual revenue.
14 Cartwright Creek would propose to use these funds for future repairs and replacement of the
15 facility and collection system. Finally, Cartwright Creek disagrees with the inclusion of its
16 interest income in determine base revenue since these funds were contributed by its majority
17 owners and does not represent surplus operating funds. There is currently no provision in the
18 rate case to compensate Sheaffer for this equity contribution.

19
20 The CAPD is correct in a statement made in its testimony that this case involves elements not
21 found in most rate cases. Cartwright Creek also agrees with the CAPD suggestion to allow a just
22 and reasonable operating margin rather than seeking an appropriate return on its rate base. The
23 CAPD suggested "6.5% was a fair return". Cartwright Creek, in its original Petition, did not
24 provide for any return on its rate base in order to reduce the impact on its customers. However,
25 Cartwright Creek believes that while ultimately a fair return will be required, the 6.5% margin
26 does not provide a sufficient return to Cartwright Creek's investors to provide a just risk-
27 adjusted rate of return.

Petition of Cartwright Creek, LLC to
Change and Increase Rates and Charges
Docket No. 09-00056
Response to TRA Staff Comments of September 9, 2009

Attachment A

Attachment A

Cartwright Creek's Response to TRA Staff Comments of September 9, 2009 Status Conference

Original Issue August 28, 2009 (as Attachment K to "Response to TRA Staff Data Request #2)

	Existing	Proposed	Monthly increase	# of customers	Attrition Year Revenue	2008 Year Revenue	
One Bedroom	\$ 20.74	\$ 37.02	\$ 15.26	0	\$ -	\$ -	
Two Bedroom	\$ 26.10	\$ 46.67	\$ 19.28	38	\$ 21,281.52	\$ 11,901.60	
Three Bedroom	\$ 30.38	\$ 54.37	\$ 22.49	281	\$ 183,335.64	\$ 102,441.36	
Four Bedroom	\$ 35.21	\$ 63.07	\$ 26.12	172	\$ 130,176.48	\$ 72,673.44	
Five Bedroom	\$ 39.49	\$ 70.77	\$ 29.33	6	\$ 5,095.44	\$ 2,843.28	
Residential Revenue				497	\$ 339,889.08	\$ 189,859.68	(Note 3)
						\$ 189,641.00	(Note 4)
Commercial Rate per 1,000 gallons of flow per month(note 2)	\$ 3.31	\$ 5.96	\$ 2.48				
2008 total commercial flow (in 1,000 of gallons) Note 2			16,356	35			
Commercial Revenue					\$ 97,479.31	\$ 54,137.00	(Note 4)
Commercial Bonding Surcharge			Commercial Bonding Surcharge (35*\$.39(4 mos.)				
			2008 (5 months, 35 customers, \$0.39)		\$ -	Included Above	
			Attrition Year (12 months, 35 customers, \$0.39)		\$ 16.38		
Totals					\$ 437,384.77	\$ 243,996.68	

Note 1: Commercial rates exclude a \$.39 monthly provision for bonding surcharge.

Note 2: Calculated from 2008 revenue. Flow data not available.

Note 3: Residential Revenue by # Bedrooms for 2008 provided to confirm reported residential revenue.

Note 4: Reported 2008 Revenue

Petition of Cartwright Creek, LLC to
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Attachment B

Attachment B**Cartwright Creek's Response to TRA Staff Comments of September 9, 2009 Status Conference**

Original date 8/3/2009 (Provided as Exhibit 29.1 to "Cartwright Creek's Response to Consumer Advocates First Discover Request")

Revised 9/23/2009

Category	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Commercial	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	32	34	35	35
Residential:																					
One Bedroom	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Two Bedroom	37	37	37	37	37	37	37	37	37	37	37	37	37	38	38	38	38	38	38	38	38
Three Bedroom	279	279	279	279	279	279	279	279	279	279	279	279	279	279	279	279	279	279	279	279	278
Four Bedroom	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171	172	171
Five Bedroom	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Total Residential	493	493	493	493	493	493	493	493	493	493	493	493	493	494	494	494	494	494	494	495	493
Total Customers	527	527	527	527	527	527	527	527	527	527	527	527	527	528	528	528	528	526	528	530	528

Ave. Commercial
Customers2006
2007
2008
200934.0
33.9
34.0
35.0

Category	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Commercial	35	32	34	34	34	34	34	34	34	34	34	34	34	34	34	35	35	35	35
Residential:																			
One Bedroom	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Two Bedroom	38	38	38	38	38	38	38	38	38	38	38	38	38	38	38	38	38	38	38
Three Bedroom	279	278	279	279	279	279	279	279	279	279	279	279	279	279	279	281	281	281	281
Four Bedroom	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172
Five Bedroom	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Total Residential	495	494	495	495	495	495	495	495	495	495	495	495	495	495	495	497	497	497	497
Total Customers	530	526	529	529	529	529	529	529	529	529	529	529	529	529	529	532	532	532	532

Petition of Cartwright Creek, LLC to
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Attachment C

Attachment C

Original Issue August 28, 2009 (Attachment K to "Response to Staff Data Request #2")

Account Number (a)	Account (b)	2004 CCUC	2005	2006	2007 Additions	2008
Sewer Plant Utility Accounts						
353	Land and Land Rights				102,740	102,740
354	Structures & Improvements	25,757	25,757	25,757	25,757	25,757
360	Collection Sewers - Force	-	-	-	-	-
361	Collection Sewers - Gravity	219,975	219,975	219,975	219,975	219,975
362	Special Collecting Structures	-	-	-	-	-
363	Services to Customers	-	-	-	-	-
364	Flow Measuring Devices	5,414	5,414	5,414	5,414	5,414
365	Flow Measuring Installations	7,160	7,160	7,160	7,160	7,160
370	Receiving Wells	95,903	95,903	95,903	95,903	95,903
371	Pumping Equipment	127,225	127,225	127,225	127,225	127,225
380	Treatment & Disposal Equipment	409,085	409,085	409,085	409,085	409,085
381	Plant Sewers	11,158	11,158	11,158	11,158	11,158
382	Outfall Sewer Lines	21,758	21,758	21,758	21,758	21,758
389	Other Plant & Miscellaneous Equipment	31,303	31,303	31,303	31,303	31,303
390	Office Furniture & Equipment	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-
392	Stores Equipment	-	-	-	-	-
393	Tools, Shop & Garage Equipment	-	-	-	-	-
394	Laboratory Equipment	-	-	-	-	-
395	Power Operated Equipment	-	-	-	-	-
396	Communication Equipment	-	-	-	-	-
397	Miscellaneous Equipment	-	-	-	-	-
398	Other Tangible Plant	2,209	2,209	2,209	2,209	2,209
Totals		956,947	956,947	956,947	102,740	1,059,687

Analysis of Depreciation to Primary Sewer Plant Utility Accounts						
353	Land and Land Rights					
354	Structures & Improvements	31,633	32,881	34,129	35,377	25,757
360	Collection Sewers - Force	-	-	-	-	-
361	Collection Sewers - Gravity	149,545	149,545	155,219	160,894	166,569
362	Special Collecting Structures	-	-	-	-	-
363	Services to Customers	-	-	-	-	-
364	Flow Measuring Devices	11,399	11,849	12,299	12,749	12,574
365	Flow Measuring Installations	-	-	-	-	-
370	Receiving Wells	81,150	81,150	84,230	87,309	90,388
371	Pumping Equipment	116,660	116,660	121,087	125,513	129,940
380	Treatment & Disposal Equipment	331,605	331,605	344,188	356,772	369,355
381	Plant Sewers	8,573	8,573	8,899	9,224	9,549
382	Outfall Sewer Lines	16,716	16,716	17,351	17,985	18,619
389	Other Plant & Miscellaneous Equipment	22,572	22,572	23,428	24,285	25,141
390	Office Furniture & Equipment	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-
392	Stores Equipment	-	-	-	-	-
393	Tools, Shop & Garage Equipment	-	-	-	-	-
394	Laboratory Equipment	-	-	-	-	-
395	Power Operated Equipment	-	-	-	-	-
396	Communication Equipment	-	-	-	-	-
397	Miscellaneous Equipment	-	-	-	-	-
398	Other Tangible Plant	1,695	1,695	1,760	1,824	1,888
Totals		771,549	773,247	802,589	831,932	849,782

Net Investment in Plant	185,398	183,700	154,358	125,015	209,905
Cartwright Creek Deposit Securing LOC					240,000
Total Rate Base					449,905

Petition of Cartwright Creek, LLC to
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Attachment D

Cartwright Creek's Response to TRA Staff Comments of September 9, 2009 Status Conference

Company vs. consumer Advocate

Note 1: The CAPD proposes to further reduce the requested tariff increase by interest earned on funds contributed by Sheaffer International to secure the required TRA financial security without including an associated cost of this equity. The Company excluded interest income on these funds.