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October 6, 2009

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

filed electronically in docket office on 10/06/09

Subject: Docket No. 09-00056
Petition of Cartwright Creek, LLC to Change and Increase Rates and Charges
Response to TRA Staff Questions Attached to Notices of 9-23 and 9-30-09

Dear Ms. Standley,

Attached for filing is Cartwright Creek's response to the TRA staff questions attached to Notices of September 23 and 30, 2009.

Please contact me if you have any questions.

Sincerely,

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

Copies: Sharla Dillon, TRA

- Electronic version via email, original and five hard copies hand delivered
- Mary Leigh White – CAPD (via email)
- Henry Walker – Counsel for Waterbridge (via email)

Cartwright Creek Response to TRA Staff Questions
Attached to Notices of 9-23 and 9-30-09

1. Is it Cartwright Creek's intention that the proposed tariff in the petition be applicable to all three wastewater systems (Grasslands, Waterbridge and Stillwater)?

Response: Yes

2. Is it Cartwright Creek's intention that the undeveloped lot fee in the proposed tariff be applicable to the Stillwater development as well?

Response: The proposed tariff does not have an “undeveloped lot fee”. It does have (in paragraph 23.a) a “sewer access fee”. Please see the specific description of the “sewer access fee” in the proposed tariff. Note that it applies to connections to an existing Cartwright Creek wastewater treatment facility where property owners have paid Cartwright Creek’s approved tap fee.

Since both Stillwater and Waterbridge are new facilities that are being constructed by developers and deeded to Cartwright Creek without payment of a tap fee, the “sewer access fee” would not apply to the developers of Waterbridge and Stillwater.

Also note that the “sewer access fee” in the proposed tariff is not the same as the “vacant lot fee” in the draft Cartwright Creek-Waterbridge agreement attached to the petition to intervene filed by Waterbridge’s attorney on August 28. Cartwright Creek has objected to the motion to intervene by Waterbridge and the admissibility of the proposed contracts contained in the motion. The “vacant lot fee” is proposed by Waterbridge and Cartwright Creek responds with its objection that the Waterbridge motion to intervene including attachments, be denied and all subsequent filings be stricken from the record and not admissible in this rate case.

The existing Stillwater-Cartwright Creek agreement does not contain a “vacant lot fee”, as the developer has agreed to reimburse Cartwright Creek for operating expenses until sufficient lots are built out.

3. What is the total dollar amount of expenses related to Waterbridge and Stillwater developments included in Cartwright Creek's original petition?

a. Provide an itemization of these expenses by dollar amount, description of each expense, and the account to which it is booked. Be specific when identifying each expense (broad categories such as "plant management" will not satisfy the required level of specificity).

Response: The original Petition included initial operating costs anticipated for the Waterbridge facility, totaling \$ 8,000. These costs have been removed from the rate case.

There were no expenses related to Stillwater in this petition.

b. Should such expenses be considered in this rate case and how should they be treated, e.g. expensed or capitalized? Why or why not?

Response: As the previous response indicates, the operating expenses have been removed from this rate case.

Cartwright Creek's original Petition included \$8,333 annual amortization (see Exhibit D of the April 23, 2009 Petition), which represents an amortization of \$125,000 of previously capitalized costs associated with obtaining a CCN for the Williamson County PGA 5 service area. This service area includes both the Waterbridge and Stillwater Development from which the Company expects to ultimately increase its customer base by over 700 customers over 20 years. The Company has proposed to amortize this cost over a twenty year period as these developments are constructed. The amounts were not expensed but capitalized by Cartwright Creek as it represents an investment made by the Company in expanding its customer base by over 130%. Since significant portions of the Company's expenses are fixed or semi-variable costs, a larger number of customers will ultimately reduce the proportionate cost for every customer.

4. Identify what the \$8,000 in "Revenues from Other Systems" shown on the Company Exhibit D represents and how it is calculated. How does it relate to the \$10,000 in revenue mentioned by counsel for Waterbridge at the September 9, 2009 Status Conference?

Response: The \$8,000 "Revenues from Other Systems" was revenue anticipated from the Waterbridge system through direct reimbursement of operating costs from the Waterbridge developer. Both the anticipated revenue and the operating costs from Waterbridge have been removed from Cartwright Creek's Petition. Please see the Cartwright Creek filing on September 28, 2009, entitled "Response to TRA Staff Comments of September 9, 2009 Status Conference".

Counsel for Waterbridge should be able to provide an explanation of the \$10,000. His comments may pertain to the draft agreement being negotiated between Waterbridge and Cartwright Creek.

5. Does Cartwright Creek expect that there will be any customers in the Waterbridge or Stillwater developments by the end of 2009? If so, what is the expected number?

Response: No.

6. Please provide the total charge to Sheaffer from Astro National - bring supporting documentation for this amount. Provide detail on how this amount was allocated and to whom.

Response: Please see the filing by Cartwright Creek on September 18, 2009 entitled "Rebuttal Testimony to Consumer Advocate's Mr. Dave Peters Testimony". The response beginning on page 4 provides the detail on how the amount was calculated and documentation.

7. Please explain in detail how much of Mr. Reed's costs is for overhead and how much is payroll expense for Mr. Reed. Provide detail of the overhead amount.

Response: Please see the response to question 14 below.

Provide detailed descriptions of the functions performed by Mr. Reed, Mr. Winfrey and Mr. Meyer.

Response: Attachment A lists the responsibilities of Mr. Reed and Mr. Meyer.

Mr. Winfrey provides operation coverage on weekends, during Mr. Reed's time off (vacation, personal time, and holidays) and for coverage during time periods that Mr. Reed may be involved in plant maintenance and repairs that do not allow him sufficient time to conduct the lab tests or other parts of his responsibilities.

8. Regarding the Waterbridge development:

a. What is the estimated date for the completion of the Waterbridge wastewater system and transfer of the title to Cartwright Creek?

Response: The Waterbridge wastewater system is essentially complete and awaiting TDEC final inspection and the contractor's completion of "punch list" items from Cartwright Creek's inspection. The title transfer will occur once a Waterbridge-Cartwright Creek agreement is finalized and Waterbridge has completed all the obligations under the agreement prior to closing as defined in the agreement.

b. When and under what circumstances will Cartwright Creek begin receiving the proposed undeveloped lot fees from Waterbridge?

Response: See response to question 2.

c. The current TDEC Permit for Waterbridge (SOP#04019) expires on October 31, 2009. Has Cartwright Creek made application for a renewal of its permit? When will the new permit be issued?

Response: The renewal application was submitted in early September. TDEC representatives have informed Cartwright Creek that the existing permit remains in effect until the renewal is issued. Cartwright Creek expects the renewal in November.

9. Regarding the Stillwater development:

a. What is the estimated date: for the completion of the Stillwater wastewater system and transfer of the title to Cartwright Creek?

Response: According the Stillwater developer's current schedule, the Stillwater wastewater system and transfer to Cartwright Creek should be in mid-2010.

b. Will the developer of Stillwater pay Cartwright Creek undeveloped lot fees? If so, what is the amount of the fee per undeveloped lot and when and under what circumstances will Cartwright Creek receive the first payment?

Response: As explained in the response to question 2, the vacant lot fee was not required in the existing Cartwright Creek-Stillwater agreement because the developer has agreed to reimburse und the operating shortfall.

c. How many planned building lots are there in the proposed Stillwater development?

Response: Stillwater has a planned 492 residential units and a large golf course clubhouse.

10. Approximately what percentage of Mr. Meyer's time charged to Cartwright Creek was spent on engineering projects for the Grassland facility? Provide a detailed explanation of the outcome or benefit to the customers at the Grasslands as a result.

Response: In 2008, approximately 67 hours or 3% of Mr. Meyer's time was spent on engineering projects directly related to Cartwright Creek. The work was associated with preliminary engineering work performed by Mr. Meyer and other Sheaffer staff to determine the technical and cost requirements for the anticipated treatment limits in a then-unissued NPDES discharge permit.

11. Provide documentation of all engineering related work including but not limited to research results, inter-company memos, reports, drawings and cost estimates.

Response: The internal documentation for the preliminary engineering work described in the answer to question 12 was provided in the answer to question 17 in the August 28, 2009 submittal by Cartwright Creek entitled "Response to TRA Staff Data Request #2).

12. Were any of the engineering projects of a non-recurring nature, i.e. not expected to be repeated on an annual basis?

Response: Upgrading the treatment system to meet the new discharge permit will be a multi-year project. A draft discharge permit renewal was issued for comment by TDEC in mid-September 2009. We anticipate the new proposed discharge limits will require, at minimum, a significant upgrade and quite possibly replacement of the treatment system and main pump station. The engineering work to determine the requirements and costs to meet the new limits is included in the funding that will be provided by the new tap fee and new taps requested in the Petition for the tariff revision.

13. Based on 100% of Mr. Meyer's time, what percentage was spent on Sheaffer projects other than those performed for Cartwright Creek? Explain.

Response: 2008:

- Cartwright Creek Grasslands Operations	288 hours (14%)
- Cartwright Creek New Tariff	60 hours (3%)
- Cartwright Creek Grasslands Upgrade	67 hours (3%)
- Sheaffer Waterbridge and Stillwater Projects (separate contracts billed/paid by Developer)	544 hours (26%)
- Other Sheaffer projects, sales, administration, vacation	<u>1121 hours (54%)</u>
	2080 hours (100%)

2009 (January to July)

- Cartwright Creek Grasslands Operations	213 hours (18%)
- Cartwright Creek New Tariff	114 hours (9%)
- Cartwright Creek Grasslands Upgrade	0 hours (0%)
- Cartwright Creek/Waterbridge Contract Execution (Review, discussions with developer)	57 hours (5%)
- Sheaffer Waterbridge and Stillwater Projects (Separate contracts billed/paid by Developer)	135 hours (11%)
- Other Sheaffer projects, sales, administration, vacation	<u>697 hours (57%)</u>
	1216 hours (100%)

14. What is Sheaffer's "loading factor" for payroll benefits?

Response: Sheaffer's loading factor for payroll benefits are based on actual costs incurred for its employee benefit program. For its company size, the loading factor varies significantly depending upon the benefits to the specific employee and his/her salary.

The benefit program includes coverage that is normal and customary in many businesses today and is aimed at reducing costly employee turnover. These benefits and related costs include 90% employer-paid Blue Cross/Blue Shield Health and Dental Insurance, an employer paid Sun Life \$50,000 Life/Accidental Death and Dismemberment, Sun Life 60% of salary long-term disability policy, the 6.2% and 2.45% employee match Social Security and Medicare wages paid, state mandated employer paid unemployment compensation insurance of 2.45% on the first \$9,000 in wages, a 3% employer contribution (IRS "safe harbor") 401k retirement program, and state mandated workman's compensation insurance.

Starting in 2009, the Company changed its employer provider health insurance to include a health care savings account with a \$1,200 employer contribution into the Health Care Savings Account policy in an effort to reduce overall employer paid health care costs.

A standard loading factor is not practical as health care costs as a percentage of wages paid vary significantly with both the employee's wage and family insurance coverage status. The Company's contribution for family medical costs of nearly \$15,000 may reach 30% of wages for an employee earning \$50,000 per year. In addition, worker's compensation insurance varies significantly with the increased risk of physical harm from an employee's actual responsibilities. A wastewater plant operator has a higher rate than an office employee. Payroll loading costs associated were detailed for Mr. Reed in previous testimony filed in Appendix B of our September 18, response to the CAPD's testimony by Dave Peters. The \$185 per hour charge for Bruce Meyer includes the actual provision for medical and dental insurance for Mr. Meyer and his spouse and other benefit and employment tax related costs. The calculation of loading factor for the test year of 2008 for Mr. Meyer and Mr. Reed are in proprietary Attachment B.

15. Does the annual Insurance premium allocated to Cartwright Creek provide insurance coverage to the Grasslands wastewater system only, or does it cover the newly built Sheaffer systems at Waterbridge and Stillwater as well?

Response: The annual insurance premium covers only the Grasslands facility.

16. If Waterbridge and Stillwater are not included, what is the estimated additional annual premium to add these systems to the policy?

Response: Astro National has provided preliminary estimates. The estimated premium for Waterbridge is \$10,000 and for Stillwater \$30,000.

17. Mr. Meyer testifies regarding the severity of the Infiltration and Inflow ("I and I") problems at the Grasslands. What expenses are cost driven by excessive I and I?

Response: The affect of excessive I&I on day to day operating costs are difficult to determine. The increased flow requires the treatment system's main pump station pumps to run more frequently, increasing the need for maintenance. There is slightly higher chemical and electricity usage. There is a greater risk of sewage overflow if one of the two influent pumps fail during a rainfall period and the remaining pump can't keep up with the increased flow.

The I&I has prevented Cartwright Creek from increasing its customers and revenue by taking in new taps and tap fees.

Importantly, if the I&I is not addressed, any upgrades and/or replacement of the treatment system that is required to meet the new NPDES discharge permit limits will need to be significantly increased in size and cost. Without eliminating significant amounts of I&I, new treatment units will need to be oversized by a factor of 2 or 3.

18. What would be the estimated reduction in operating costs related to these expenses if the I and I problem were completely repaired?

Response: Cartwright Creek is not able to estimate the reduction in current operating costs if the I&I problem was completely repaired. Cartwright Creek will be able to provide the increased costs for treatment systems sized to handle the I&I once the engineering work is completed.

19. Has anything been accomplished toward the goal of eliminating the I and I problem since the repair of 1000 feet of line in 2006-2007? Explain in detail.

Response: Cartwright Creek has not completed any additional sewer repairs since 2006-2007 due to lack of funds.

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Attachment A

Attachment A

Operations Manager Responsibilities

- Daily discussions with full time operator to review operational status, repair issues
- Respond to emergency calls for problems with treatment system and collection system
- Bid, select, and manage outside contractors for regular and emergency maintenance work
- Manage all contacts with homeowners and property owners concerning additional taps
- Prepare proof of service letters to homeowners for county and state submittal
- Main Cartwright Creek contact for regulatory agencies (TDEC, Williamson County, other utility districts, Franklin)
- Main Cartwright Creek contact for industry organizations (TN Association of Utility Districts, for example)
- Review and approve invoices
- Provide engineering support for equipment and process troubleshooting
- New NPDES permit – once permit issued, review impact on facility and costs, discussions with TDEC, develop implementation plan.
- Preparation, filing, testimony for tariff revisions
- Manage program to investigate, engineer, and implement improvements to collection and treatment
- Formalize safety program, develop additional procedures, training
- Prepare and Implement Identity theft program
- Grease trap inspection and cleanout program
- Formalize Laboratory procedures

Senior Operator Responsibilities

- Obtain and properly prepare and store influent and effluent samples for analyses
- Prepare samples and conduct 40+ lab tests/analyses (weekly) required by NPDES permit
- Maintain lab equipment, supplies, calibration for above tests
- Clean, calibrate, maintain composite samplers required for above tests
- Daily recording of analytical and flow data
- Compile data and complete forms for Monthly Operating Reports required by TDEC
- Monitor treatment system performance and make operational adjustments
- Manage on-site sludge handling and coordinate off-site disposal
- Perform regular maintenance on all of the treatment system and pumping system equipment
- Perform a majority non-scheduled maintenance on treatment system equipment
- Contact and coordinate contract maintenance staff for regular or non-scheduled maintenance requiring specialized equipment and staff
- Maintain plant grounds and building property
- Respond to questions and problems of individual customers (sewer backups, for example)

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Attachment B

CONFIDENTIAL

Provided under separate cover