

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:**

**PETITION OF CARTWRIGHT  
CREEK, LLC TO CHANGE AND  
INCREASE RATES AND CHARGES**

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**DOCKET NO. 09-0056**

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**RESPONSE OF WATERBRIDGE TO QUESTIONS OF TRA STAFF**

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Waterbridge submits the following responses to the questions from the TRA Staff listed in the Hearing Officer's Order of September 30, 2009. Any questions not addressed appear to be inapplicable to Waterbridge.

**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)?**

**ANSWER:** When the TRA granted Cartwright Creek authority to serve the area where Waterbridge is located, Cartwright Creek informed the TRA that its tariffs for Grasslands would apply to the new development. In its final order, the agency expressly confirmed that understanding. See Docket 04-00358, Order of July 12, 2005, at page 3.

**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).**

**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?**

**ANSWER:** Waterbridge's only knowledge of the utility's expenses related to the Waterbridge development comes from the testimony, exhibits, and discovery responses filed by Cartwright

Creek. Based on that information, Waterbridge makes the following observations and conclusions.

Cartwright Creek informed the TRA Staff on July 7, 2009 that, according to the Waterbridge developer, "home construction could begin by September 2009." Response to Staff Data Request No. 1, Question 14. In prefiled testimony, Cartwright Creek witness Robert Cochrane said the utility expected to take ownership of the treatment facility in Waterbridge "during 2009." Direct Testimony at page 12, line 4. Cartwright Creek also claims to have included in this rate case \$8,000 in "operating costs" for the Waterbridge development including \$1,500 in "additional electric power" and \$5,000 in "plant management expenses," indicating that Cartwright Creek believed that the Waterbridge treatment plant would be fully operational and providing service to homes in the area before the end of the year. See Rebuttal Testimony of Robert Cochrane, at page 10, lines 29-32.

Cartwright Creek also states in Mr. Cochrane's rebuttal testimony that it projected \$8,000 in revenue from Waterbridge during 2009.<sup>1</sup> Id., at lines 25-27. Cartwright Creek apparently did not, however, include in the rate case any of the anticipated \$39,000 a year (or \$9,800 per quarter) in "vacant lot fees" which, according to the parties' draft agreements, Cartwright Creek will be paid by Waterbridge shortly after the parties sign the service agreement. (The payment provisions in the draft contracts are described in the Answer to Question 4 below.)

In its rebuttal testimony, Cartwright Creek proposes to take the expenses and revenues related to Waterbridge out of this rate case. The only reason given by Cartwright Creek for this change-of-heart is "the subsequent intervention" by Waterbridge in this case. Rebuttal

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<sup>1</sup> The source of that payment is not clear. There is nothing in the parties' draft contracts providing for a payment of that amount.

Testimony of Robert Cochrane, at page 10, lines 19-20. Waterbridge can only conclude from Mr. Cochrane's testimony that Cartwright Creek has delayed the signing of an agreement in retaliation for Waterbridge's having intervened in the rate case and apparently wants the TRA to disregard the projected expenses and revenues related to Waterbridge in order to increase the company's revenue requirement and subsequent rate award.

Finally, Waterbridge notes that Cartwright Creek is attempting to recover from ratepayers \$125,000 in expenses incurred "during the due diligence and contractual negotiations associated with the purchase" of the Grasslands system in September, 2004. See Cartwright Creek Response to TRA Staff Data Request No. 2, Question 10. The utility proposes to amortize this expense over a fifteen year period. Id. It is not clear to Waterbridge when the utility began amortizing this expense nor how much of that \$125,000 relates to the purchase of Grasslands, the contemporaneous transfer of the utility's certificate to the new owner (see TRA Docket No. 04-00307), or the subsequent obtaining of a certificate to serve the Waterbridge area. See TRA Docket 04-00358. The two-page "invoice" from Sheaffer to Cartwright Creek for \$125,000 apparently includes expenses related to all three projects but does not specify the amounts attributable to each. See Attachment E to Response to TRA Staff Data Request No. 2. Presumably the bulk of the expenses are costs associated with acquiring Grasslands. Under regulatory accounting principles, such acquisition expenses cannot be charged to ratepayers absent regulatory approval. No such approval has been requested or received. The costs related to the transfer of the certificate to the new owner and obtaining a new certificate to serve the area where Waterbridge is located should have been expensed in 2004 and 2005. In sum, Waterbridge agrees with the Consumer Advocate that the entire amount of this \$125,000 expense ( \$8,333 per year) should be removed from the rate case.

**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?**

**ANSWER:** Waterbridge is not aware of any payment of \$8,000 owed to Cartwright Creek. Both the draft contract proposed by Waterbridge and the draft proposed by Cartwright Creek (each draft is attached to the petition to intervene filed by Waterbridge) provide that Waterbridge will pay the first "Total Vacant Lot Fee" to Cartwright Creek shortly after the signing of the contract between the parties. The draft proposed by Waterbridge provides for a payment of \$9,806.00 (one quarter of the annual amount due) to Cartwright "within seven working days of closing." Contract at page 6, paragraph ii. The Cartwright Creek contract provides for a payment of the entire annual amount (approximately \$39,000) "within seven working days of the execution of this Agreement." Contract at Page 3, paragraph f.

**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?**

**ANSWER:** Builders stand ready to begin construction as soon as arrangements for sewer service are completed and the county allows construction to start. Potential buyers are already contacting Waterbridge about the date.

When Cartwright Creek filed this case, the company projected that a contract with Waterbridge would be signed during 2009 and apparently included in the test period expenses and revenues related to serving Waterbridge. Since Waterbridge intervened as a party, however, Cartwright Creek has done little to try to reach such an agreement and has implied in prefiled testimony that if the utility does not receive the full amount of its requested rate increase, it will abandon its service obligations altogether. See Rebuttal Testimony of Robert Cochrane at p. 9, lines 37-39. If Cartwright Creek is unable or unwilling to fulfill its legal duty to provide service

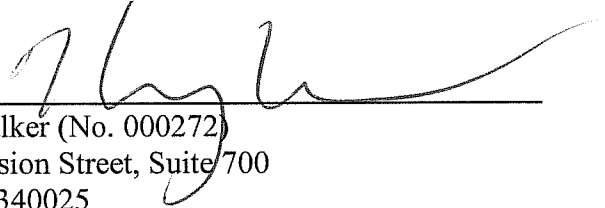
to Waterbridge under just and reasonable terms, Waterbridge has the right under Tennessee law to obtain service from another wastewater utility. See T.C.A. § 65-4-203.

**8. Regarding the Waterbridge development:**

- a. What is the estimated date of the completion of the Waterbridge wastewater system and transfer of the title to Cartwright Creek?**
- b. When and under what circumstances will Cartwright Creek begin receiving the proposed undeveloped lot fees from Waterbridge?**

**ANSWER:** See Answers to Questions 4 and 5 above.

Respectfully submitted,



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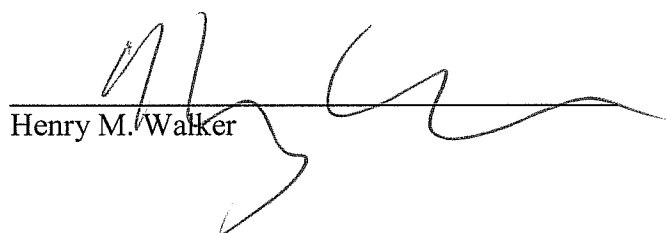
## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this Petition has been served upon the following by U.S. Mail this 6<sup>TH</sup> day of October, 2009.

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