

**IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
PETITION OF CARTWRIGHT CREEK,)	No. 09-00056
L.L.C. TO CHANGE AND INCREASE RATES)	
AND CHARGES)	

**PROPOSED SETTLEMENT AGREEMENT BETWEEN CARTWRIGHT CREEK,
L.L.C. AND THE CONSUMER ADVOCATE AND PROTECTION DIVISION**

For the sole purpose of settling this case, Tennessee Regulatory Authority ("TRA" or "Authority") Docket Number 09-00056, Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division ("Consumer Advocate"), and Cartwright Creek, L.L.C. ("Cartwright Creek" or "Company") (collectively referred to as "Parties" herein) respectfully submit this Proposed Settlement Agreement ("Settlement Agreement") for TRA approval and consideration.

PROCEDURAL BACKGROUND

1. Cartwright Creek is a public utility as defined by T.C.A. § 65-4-101 and its public utility operations are subject to jurisdiction of this Authority. Cartwright Creek is engaged in the business of offering wastewater services to customers located in Williamson County, Tennessee. Its principal office is located at 2033 Richard Jones Road, Nashville, Tennessee 37215.

2. Cartwright Creek is owned ninety percent (90%) by Sheaffer International, L.L.C., a Delaware limited liability company ("Sheaffer"), with the remaining ten percent (10%) owned by MRS, L.L.C., a Tennessee limited liability company. Sheaffer is the

managing member of the Company. Cartwright Creek serves approximately 500 residential and commercial customers in Williamson County, Tennessee.

3. The Company has properly published and posted notice of its petition for a rate increase in accordance with the TRA's rules.

4. On April 28, 2009, Cartwright Creek filed a petition for an increase in its rates and approval of other revisions to its tariffs. This is Cartwright Creek's first request for a rate increase since 1996. In its petition in the present case, Cartwright Creek sought a rate increase of approximately 75%; the average increase per customer sought is from approximately \$31.82 to \$56.99 per month.¹ The annual revenue increase sought was \$182,833.²

5. Cartwright Creek has been pursuing a growth strategy to expand the overall customer base of the facility in order to lessen the high administrative burden, or fixed costs, paid by the approximately 500 customers; however, the slowdown of the housing industry has delayed and even cancelled construction in the sought after subdivisions.³ As a result, Cartwright Creek's plan to triple their customer base within seven years was unattainable and the Company has requested relief by filing a 75.15% rate increase to its tariffs.

6. On June 1, 2009, the Consumer Advocate filed a petition to intervene in the rate case. The petition was subsequently granted without objection.

7. The Parties to this Settlement Agreement have engaged in substantial discovery and have undertaken extensive discussions to resolve all disputed issues in this case. As a result of the information obtained during discovery and the discussions between the Parties, and for

¹ Exhibit A, Petition of Cartwright Creek To Change and Increase Certain Rates and Charges at page 10 (April 28, 2009).

² First Data Response of Cartwright Creek to TRA Staff, at page 1 (July 7, 2009).

³ Direct Testimony of Robert Cochrane, at page 3 (April 28, 2009).

the purpose of avoiding further litigation and resolving this matter upon acceptable terms, the Parties have reached this Settlement Agreement subject to TRA approval.

8. The Settlement Agreement includes only those revenues and expenses associated with the Grasslands area development as required by the October 22, 2009 TRA *Order Resuspending Tariff and Proposed Rate Increase and Initial Order Modifying Scope of Rate Case*. The revenues and expenses associated with the Waterbridge and Stillwater Developments (as described in the original petition) will be reviewed and considered upon the filing of a new rate case in a separate docket as required by that Order.

SETTLEMENT TERMS

9. Subject to TRA approval, in furtherance of this Settlement Agreement, the Parties have agreed to the settlement terms set forth below.

10. The Parties jointly request that the TRA consider this Settlement Agreement at its next available conference, a date prior to the hearing date or on the date of the scheduled rate-hearing. To prevent additional rate case costs from being incurred by the Parties, the Parties request if the TRA determines testimony should be presented or a hearing on the merits needs to occur in this docket, that any such hearing should be set at least ten (10) business days after the consideration of the Settlement Agreement. Cartwright Creek agrees to extend the existing tariff if necessary to meet the above.

11. While the Consumer Advocate prefers that rates not increase for customers, especially in this tough economic climate, the statutory standards indicate a rate increase is appropriate to provide a fair rate of return to the Company.

12. Effective upon approval by the TRA, rates will be implemented to increase Cartwright Creek's annual revenue by \$98,054, or no more than 40%. The Company will

clearly and conspicuously notify its consumers of the approved rate increase and effective dates in a clear and conspicuous manner on each of its monthly billings.

13. Through negotiations, certain adjustments have been made to the figures submitted in the Company's Petition which reduced the revenue deficiency from \$182,833 to \$98,054. Those adjustments and subsequent calculations are shown in Exhibit 1 of the Settlement Agreement, as attached. As a result of this Settlement Agreement, if approved by the TRA, rates will increase by no more than 40%, allowing the company a 6.5% operating margin.

14. In the testimony of Consumer Advocate witness Dave Peters, filed in this case, the Consumer Advocate found a revenue deficiency of approximately \$76,547. As a result of this Settlement Agreement, the Company is agreeing to the Consumer Advocate's position with regard to the following expense classifications:

- (a) purchased power expense of \$24,708 versus the Company's purchased power expense of \$31,104;
- (b) materials and supplies of \$8,161 versus the Company's materials and supplies of \$9,161;
- (c) rent of \$0 versus the Company's rent of \$7,800;
- (d) postage expense of \$2,044 versus the Company's postage expense of \$2260;
- (e) depreciation expense of \$0 versus the Company's depreciation expense of \$27,645;
- and
- (f) an operating margin not to exceed 6.5%.

15. For the purposes of settlement, the Consumer Advocate has agreed to the Company's position with regard to the Insurance Expense of \$19,805 and has agreed to increase its initial determination of plant management expense to include an additional \$11,416 for employee Bob Winfrey, resulting in a total plant management expense of \$81,558.

16. Under the terms of this Settlement Agreement, the average increase for customers will be no more than 40% rather than the initial request of a 75.15% rate increase. As a result, the average increase per customer will be from approximately \$31.82 to \$43.52 per month.

17. According to the testimony of Consumer Advocate witness Dave Peters, the cumulative rate of inflation since 1996, the date Cartwright Creek's rates were last set, has been 28.81%.⁴

18. The Parties agree none of the rate case costs in this filing will be borne by the Grassland area ratepayers in any subsequent Company rate petition.

19. The Parties further agree that the rate increase requests of Cartwright Creek, filed as a result of this Settlement Agreement, will also include the following tariff changes and requirements for the protection of ratepayers:

- a. Budget Re-Payment Plans. The Company shall establish and implement a process to offer a budget re-payment plan to its customers to pay for any past due amounts and any associated charges. Specifically, the Company shall provide their customers with the opportunity (and promote the budget re-payment plan program) to pay the past due bill, including returned check fees and other charges, disconnection and reconnection charges in a payment plan, with no interest, over no less than a three (3) month billing cycle. The Company shall be ordered to only require that the customer pay the first installment payment in order to have service restored. The Company would not be required to provide customers utilizing a payment plan a second payment plan for a full calendar year from the date the first initial payment plan is implemented. Provided

⁴ Direct Testimony of Dave Peters at page 5:13-15 (August 24, 2009).

however, if a customer or household member of the customer is able to demonstrate a unique financial distress situation or the customer is disabled or a member of the customer's household is disabled, the Company shall be required to again consider permitting the customer to have additional installment plan(s) during the same calendar year. If a customer on a payment plan fails to pay a monthly installment as per the terms of the plan and is more than fifteen (15) business days late on any payment, then the customer's service is subject to disconnection and all past due charges in addition to disconnect/reconnect fees would be due and payable prior to having service restored. The Company shall be required to provide all the same disconnection notices required for any disconnection prior to disconnecting the customer.

- b. Clear Notice of Returned Check Fees. The Company shall provide a clear and conspicuous notice of any returned check fee charge and other charges and fees, including the amount of the charge, on its monthly billings to customers.
- c. Ability to Waive Fees. The Company shall implement and establish a process to permit waiving all fees associated with late payment including, but not limited to, disconnection, reconnection, and late fees, in special circumstances such as financial distress or for disabled customers, family members of customers or customers with a unique situation.
- d. Prompt Reconnection. The Company shall provide prompt and timely reconnection service for all customers within no more than two (2) days of receiving the first installment payment from the past due customer.

- e. Alternate Address Notification. The Company shall establish and implement a process to permit and notify customers of the opportunity to provide an alternate address for notification of a potential disconnection. If a customer has provided such an alternate address, the Company shall be required to provide the required notice of disconnection to that address in addition to the customer's primary billing address.

20. In light of the settlement terms set forth herein as a whole, the Parties contend that the agreed-upon revenue requirement and operating margin are fair and reasonable and will provide Cartwright Creek with a reasonable opportunity to earn a fair rate of return.

21. The Company agrees to work toward preventing large requests in the future by actively analyzing Company data.

22. The Company agrees to work toward ensuring all of their financial records are kept in accordance with Generally Accepted Accounting Principles and TRA regulations.

23. All pre-filed testimony and exhibits are introduced into evidence without objection, and the Parties waive their right to cross-examine all witnesses with respect to all such prefiled testimony and exhibits. If, however, questions should be asked by any person, the Parties may present testimony and exhibits to respond to such questions and may cross-examine any witnesses with respect to such testimony and exhibits. Further, the Parties agree to support the Settlement Agreement at the hearing for approval.

24. The provisions of this Settlement Agreement are agreements reached in compromise and solely for the purpose of settlement of this matter. They do not necessarily reflect the positions asserted by any party, and no party to this Settlement Agreement waives the right to assert any position in any future proceeding, in this or any other jurisdiction. None of the signatories to this Settlement Agreement shall be deemed to have acquiesced in any

ratemaking or procedural principle, including without limitation, any cost of service determination or cost allocation or revenue-related methodology. This Settlement Agreement shall not have any precedential effect in any future proceeding or be binding on any of the Settling Parties in this or any other jurisdiction except to the limited extent necessary to implement the provisions hereof.

25. The terms of the Settlement Agreement have resulted from extensive negotiations between the signatories and the terms hereof are interdependent. If the TRA does not accept the settlement in whole, the Parties are not bound by any position set forth in this Settlement Agreement. Specifically, and without limiting the scope of this provision, the Consumer Advocate expressly reserves the right to withdraw from this Settlement Agreement in the event of any change to this Settlement Agreement by the TRA. In the event of any change or similar action by the TRA, within twenty (20) business days, any of the signatories to this Settlement Agreement would be entitled to give notice of exercising its right to terminate this Settlement Agreement; provided, however, that the signatories to this Settlement Agreement could, by unanimous consent, elect to modify this Settlement Agreement to address any modification required by, or issues raised by, the TRA. Should this Settlement Agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this Settlement Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their initial agreement subject to TRA approval to the terms of this Settlement Agreement.

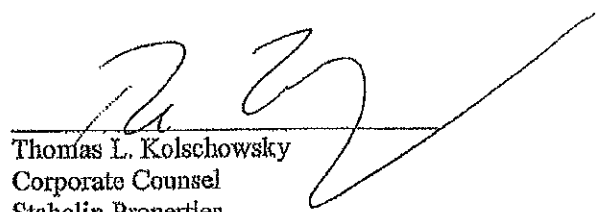
26. This Settlement Agreement does not limit in any way the Consumer Advocate or TRA's statutory rights and the provisions of this Settlement Agreement shall not in any way affect such rights.

27. This Settlement Agreement sets forth the entire agreement between the Parties, and there are no representations, agreements, arrangements, or understandings, oral or written, between the Parties relating to the subject matter of the Settlement Agreement which are not fully expressed herein or attached hereto.

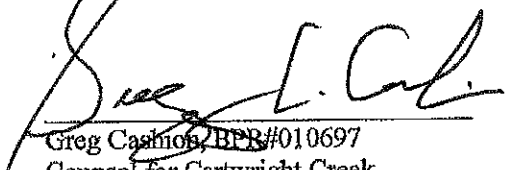
28. This Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding conflicts of law provisions.

This the 4th day of November, 2009.

FOR CARTWRIGHT CREEK SERVICE, L.L.C.

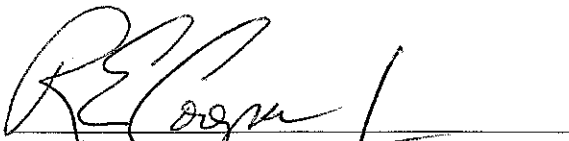


Thomas L. Kolschowsky
Corporate Counsel
Stahelin Properties
800 Roosevelt Road
Building A, Suite 120
Glen Ellyn, IL 60137
(630) 469-3331

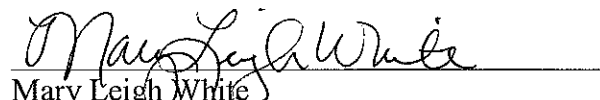


Greg Cashion, BPR#010697
Counsel for Cartwright Creek
Smith Cashion & Orr, PLC
231 Third Avenue North
Nashville, TN 37201
(615) 742-8553

FOR THE CONSUMER ADVOCATE AND PROTECTION DIVISION



Robert E. Cooper, Jr.
Attorney General and Reporter
State of Tennessee



Mary Leigh White
BPR # 026659
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, Tennessee 37202-0207
(615) 741-4567

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing settlement agreement was served via U.S. Mail or electronic mail upon:

Thomas L. Kolschowsky
Corporate Counsel
Stahelin Properties
800 Roosevelt Road
Building A, Suite 120
Glen Ellyn, IL 60137

Gregory L. Cashion
Smith Cashion & Orr, PLC
231 Third Avenue North
Nashville, TN 37201

This the 4th day of November, 2009



MARY LEIGH WHITE

Exhibit 1

Cartwright Creek L.L.C. TRA Docket #09-00056
Index To Schedules
Settlement Agreement
Test Year Ending December 31, 2008

Revenue Deficiency	1
Comparison of Rate Making Components	2
Income Statement at Current Rates	3
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Operation & Maintenance Expenses	5

Cartwright Creek L.L.C. TRA Docket #09-00056

Schedule 1

Revenue Deficiency
Settlement Agreement
For 12 Months Ending December 31, 2009

Line No.		Settlement Agreement	Original Petition	Difference
2	Operating Income at Present Rates	(\$75,747)	(\$173,499)	\$97,752
4	Fair Rate of Return	6.50%	8.25%	-1.75%
5	Required Operating Income	\$22,307	\$9,334	\$12,974
6	Operating Income Deficiency	\$98,054	\$182,833	(\$84,779)
7	Gross Revenue Conversion Factor	<u>0</u>	<u>0</u>	<u>0</u>
8	Revenue Deficiency (Surplus)	<u>\$98,054</u>	<u>\$182,833</u>	<u>(\$84,779)</u>
Rate Increase		40.00%	75.00%	

Cartwright Creek L.L.C. TRA Docket #09-00056
Comparison of Rate Making Components
Settlement Agreement
For 12 Months Ending December 31, 2009

Schedule 2

Line #		Company 2009 Proposed	ADJUSTMENTS	Settlement Agreement
1	Residential revenues	\$331,871	\$65,843	\$266,028
2	Bonding Fee Surcharge	\$0	\$2,400	\$0
3	Commercial revenues	\$94,739	\$18,936	\$75,803
4	Other Revenues	\$1,359	\$0	\$1,359
5	Total Revenues	\$427,969	\$87,179	\$343,190
6	Sludge removal expense	\$68,463	\$0	\$68,463
7	Purchased power	\$34,104	\$9,396	\$24,708
8	Chemicals	\$10,354	\$0	\$10,354
9	Materials & supplies	\$9,161	\$1,000	\$8,161
10	Plant Management	\$138,048	\$56,490	\$81,558
11	Accounting	\$30,400	\$0	\$30,400
12	Repairs & Maint to plant	\$31,191	(\$0)	\$31,191
13	Rents	\$7,800	\$7,800	\$0
14	Transportation expenses	\$4,436	\$0	\$4,436
15	Telephone	\$1,535	(\$0)	\$1,535
16	Insurance expenses	\$19,805	\$0	\$19,805
17	Postage	\$2,260	\$216	\$2,044
18	Rate Case Expense	\$8,000	\$0	\$8,000
19	Regulatory commission expense	\$707	(\$0)	\$707
20	Bad debt expense	\$500	\$0	\$500
21	Interest Exp - Smith Note	\$15,339	\$0	\$15,339
22	Bank charges	\$3,811	(\$0)	\$3,811
23	Miscellaneous expense	\$2,637	\$0	\$2,637
24	Industry association dues	\$520	\$0	\$520
25	Depreciation	\$27,645	\$27,645	\$0
26	Amortization exp - other	\$8,333	\$3,280	\$5,053
27	Permits & Taxes other than income	\$17,000	\$0	\$17,000
28	Interest & dividend income	\$0	\$0	\$0
29	Total Expenses	\$ 426,710	\$ 105,827	\$ 320,883
30	Net Operating Income (Before Taxes)	\$ 1,259	\$ (18,648)	\$ 22,307
		\$411,371.00	#####	\$305,544.33

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Cartwright Creek L.L.C. TRA Docket #09-00056
Income Statement at Current Rates
Settlement Agreement
For 12 Months Ending December 31, 2008

Schedule 3

<u>Line No.</u>		<u>Settlement Agreement</u>	<u>Company</u>	<u>Difference</u>
1	Residential revenues	\$189,641	\$189,641	\$0
2	Bonding Fee Surcharge	\$2,400	\$2,400	\$0
3	Commercial revenues	\$54,137	\$54,137	\$0
4	Other Revenues	<u>\$9,359</u>	<u>\$9,359</u>	<u>\$0</u>
	Total Revenue	\$255,536	\$255,536	\$0
			\$182,833	
3	Other Operating and Maintenance	\$285,177	\$376,057	(\$90,881)
4	Depreciation and Amort. Exp.	\$8,333	\$35,978	(\$27,645)
5	Permits And Taxes	\$17,000	\$17,000	\$0
8	Total Operating Expense	<u>\$310,510</u>	<u>\$429,035</u>	<u>(\$118,526)</u>
9	Net Operating Income (Before Taxes)	<u>(\$54,974)</u>	<u>(\$173,499)</u>	<u>\$118,526</u>

Cartwright Creek L.L.C. TRA Docket #09-00056

Schedule 4

Income Statement at Proposed Rates

Settlement Agreement

For 12 Months Ending December 31, 2009

<u>Line No.</u>		<u>Company Proposed Rates</u>	<u>Adjustments</u>	<u>Settlement Agreement</u>
1	Water Service Revenues	\$426,610	\$84,779	\$341,831
2	Miscellaneous Revenues	\$1,359	\$0	\$1,359
3	Total Revenue	\$427,969	\$84,779	\$343,190
4	Operation and Maintenance	\$373,732	(\$74,902)	\$298,830
5	Depreciation	\$35,978	(\$30,925)	\$5,053
6	Taxes Other Than Income	\$17,000	\$0	\$17,000
7	Total Operating Expense	\$426,710	(\$105,827)	\$320,883
8	Net Operating Income for Return	\$1,259	\$190,606	\$22,307

Operation Maintenance Expenses

Settlement Agreement

For 12 Months Ending December 31, 2009

<u>Line No.</u>		<u>Settlement Agreement</u>	<u>Company</u>	<u>Difference</u>
	(Maintenance Expenses)			
1	Sludge removal expense	\$68,463	\$68,463	(\$0)
2	Purchased power	\$24,708	\$34,104	(\$9,396)
3	Chemicals	\$10,354	\$10,354	(\$0)
4	Materials & supplies	\$8,161	\$9,161	(\$1,000)
5	Plant Management	\$81,558	\$138,048	(\$56,490)
6	Accounting	\$30,400	\$30,400	\$0
7	Repairs & Maint to plant	\$31,191	\$31,191	\$0
8	Rents	\$0	\$7,800	(\$7,800)
9	Transportation expenses	\$4,436	\$4,436	(\$0)
11	Total Operations Maintenance	\$259,271	\$333,957	(\$74,686)
12	Telephone	\$1,535	\$1,535	\$0
13	Insurance expenses	\$19,805	\$19,805	\$0
14	Postage	\$2,044	\$2,260	(\$216)
15	Rate Case Expense	\$8,000	\$8,000	\$0
16	Regulatory commission expense	\$707	\$707	\$0
17	Bad debt expense	\$500	\$500	\$0
18	Interest Exp - Smith Note	\$15,339	\$15,339	\$0
19	Bank charges	\$3,811	\$3,811	\$0
20	Miscellaneous expense	\$2,637	\$2,637	\$0
21	Industry association dues	\$520	\$520	\$0
22	Depreciation	\$0	\$27,645	(\$27,645)
23	Amortization exp - other	\$5,053	\$8,333	(\$3,280)
24	Permits & Taxes other than income	\$17,000	\$17,000	\$0
25	Total Expenses	<u>\$336,222</u>	<u>\$442,049</u>	<u>(\$105,827)</u>