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June 30, 2010

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

Ms. Sharla Dillon  
Docket Room Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

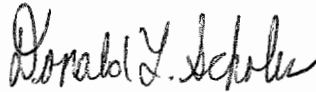
*Via Hand Delivery*

Re: Complaint by Walden's Ridge Utility District against Tennessee-American Water  
Company  
Docket No. 10-00014

Dear Sharla:

I have enclosed for filing an original and fourteen copies of the Stipulation of Facts in the above referenced matter. I have enclosed an extra copy of the Stipulation which I would appreciate your returning to me stamped filed. Thank you for your assistance in this matter.

Sincerely yours,



DONALD L. SCHOLES

Enclosures

c: Tyler Ring  
Jim Ford

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**Nashville, Tennessee**

**IN RE:**

<b>COMPLAINT OF WALDEN'S RIDGE</b>	<b>)</b>	
<b>UTILITY DISTRICT AGAINST</b>	<b>)</b>	<b>DOCKET NO. 10-00014</b>
<b>TENNESSEE AMERICAN WATER</b>	<b>)</b>	
<b>COMPANY</b>	<b>)</b>	

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**STIPULATION OF FACTS**

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Comes now counsel for Walden's Ridge Utility District and Tennessee American Water Company and file this Stipulation of Facts in this matter for the purpose of resolving the complaint by Walden's Ridge Utility District by oral argument. Both parties agree that the pertinent facts needed for the Authority to resolve this complaint are not in dispute.

1. Walden's Ridge Utility District (the District) is a utility district created under the Utility District Law, T.C.A. §§ 7-82-101 *et seq.* which provides water service to its customers in Hamilton and Sequatchie Counties.

2. Tennessee-American Water Company (the Company) is a public utility as defined in T.C.A. § 65-4-101 and is engaged in providing residential, commercial, industrial and municipal water service, including public and private fire protection service to the City of Chattanooga and surrounding areas. The Company is subject to the jurisdiction and supervision of the Tennessee Regulatory Authority (TRA) pursuant to Title 65 of the Tennessee Code Annotated.

3. Walden's Ridge Utility District purchases its water supply for its customers from the Company pursuant to a Water Purchase Contract entered into between the parties dated July 14, 2003. A copy of this Water Purchase Contract is attached as Exhibit 1 to this Stipulation. The Authority approved this contract as a special contract under Rule 1220-4-1-.07 by order dated March 4, 2004, in Docket No. 03-00452. A copy of this Order is attached as Exhibit 2 to this Stipulation. This Water Purchase Contract shall be referred to as the Special Contract in this Stipulation.

4. In the Special Contract the District agreed to purchase water from the Company for \$1.25 per 1,000 gallons for the first three years after the District began purchasing water from the Company. The initial service began on February 1, 2006. A three year term from then would have expired on February 1, 2009. The Company billed the District for water purchased under the Special Contract at the rate of \$1.25 per 1,000 gallons until June 1, 2009.

5. In regard to rate changes for water purchased by the District, Section III (A) of the Special Contract provides:

Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or to propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate.

6. In the Petition of Tennessee American Water Company to increase its rates and charges on March 14, 2008, Docket No. 08-00039, the Company did not request an increase in the rate for water sold to the District under the Special Contract. The Company met all legal requirements of notice to customers in connection with its application.

7. The Company caused a cost of service study to be prepared for its 2008 rate case filing. The study was prepared by Paul A. Herbert, President of Gannett Fleming, Inc.'s Valuation and Rate Division. This study, along with supporting pre-filed testimony and rebuttal testimony from Mr. Herbert, was filed by the Company in support of its rate increase request in Docket No. 08-00039.

8. On September 22, 2008, the TRA announced its decision in Docket No. 08-00039, including its determination that the Company should increase its rates for the District by 12.77% at the earliest date allowed by the contract.

9. Soon after the TRA announced its decision in Docket No. 08-00039, the District became aware from media reports that the TRA had ordered an increase in the District's rate by 12.77%.

10. In its written Order in Docket No. 08-00039 dated January 13, 2009, the Authority directed the Company to implement new rates to address its revenue deficiency by increasing revenues in each class including a "12.77% increase to the rates for and (*sic*) Walden's Ridge at the earliest date allowed by the contract."

11. Tennessee American Water Company does not file tariffs with the Authority for special contracts. For example, the Company has a special contract with Catoosa Utility District Authority but has no tariff that covers that contract. Consistent with this practice, since the Special Contract was entered into on July 13, 2003, the Company has never filed tariffs with the Authority which included the Company's rate charged to the District.

12. Consistent with the way all special contracts are handled, when the Company filed tariffs with the Authority on September 26, 2008 to become effective October 1, 2009, to

implement the Authority's decision in Docket No. 08-00039, no tariff sheet was filed which included a rate to be charged to the District.

13. In every rate case filed by the Company since the Special Contract was entered into on July 13, 2003, the Company has never requested a rate increase in the rate charged to the District under the Special Contract.

14. By letter dated June 1, 2009, the Company's President, John Watson, informed the District that its rate for water purchased beginning June 1, 2009 would be \$1.41 per 1,000 gallons, pursuant to the January 13, 2009 Order of the TRA in Docket No. 08-00039. A copy of Mr. Watson's June 1, 2009 letter is attached as Exhibit 3 to this Stipulation. This is the same type and timing of notice as the Company provided all other special contract customers like the District in the "sale for resale" customer classification.

15. In a letter dated July 1, 2009 from the District's legal counsel to the Company's President John Watson, the District acknowledged that the TRA was the ultimate authority in determining the rate under the Special Contract, but nonetheless informed the Company of the District's position on why it believed the Company could not charge the District the higher \$1.41 per 1,000 gallons rate to the District effective June 1, 2009 and what steps the Company would need to take to implement such higher rate under the Special Contract. A copy of this July 1, 2009 letter is attached to this Stipulation as Exhibit 4.

16. The District continued to pay for water purchased from the Company after June 1, 2009 at the rate of \$1.25 per 1,000 gallons.

17. The Company sent the District a Final Notice Prior to Disconnection dated July 29, 2009, which informed the District that unless it paid the balance of \$4,134.25 on its

overdue bill, the Company would shut off water service to the District on August 12, 2009. A copy of this Final Notice Prior to Disconnection is attached to this Stipulation as Exhibit 5.

18. On August 14, 2009 Mr. Watson sent a letter to the District's legal counsel, as a follow-up to the District's legal counsel's letter of July 1, 2009, his conversation with the District legal counsel on July 29, 2009, and the District's general manager's letter of July 13, 2009. In the letter, Mr. Watson reiterated the Company's position that it was required by statute, TCA § 65-5-101, to charge the District the rate set forth in the TRA's Order of January 13, 2009. At the District's request, Mr. Watson also enclosed a portion of Mr. Herbert's cost of service study that the Company had filed in support of its rate petition in Docket No. 08-00039. A copy of this August 14, 2009 letter without the enclosures is attached to this Stipulation as Exhibit 6.

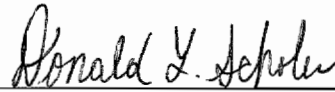
19. The District's Board of Commissioners met on August 25, 2009. At this Board meeting the Board agreed to accept the \$1.41 per 1,000 gallons rate proposed by the Company.

20. In the event the Authority concludes that the Company should have continued to charge the District at the \$1.25 per 1,000 gallons rate from June 1, 2009 through August 25, 2009, rather than at the higher \$1.41 per 1,000 gallons rate and should remove the late charges imposed after June 1, 2009, the District's account with the Company should be credited for \$22,647.23.

Attached to this Stipulation as Exhibit 7 is a computation of the amount of the credit to the District's account.<sup>1</sup>

Dated: June 30, 2010.

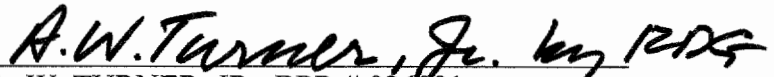
Respectfully submitted,



DONALD L. SCHOLES BPR #10102  
Branstetter, Stranch & Jennings, PLLC  
227 Second Avenue North, Fourth Floor  
Nashville, TN 37219  
615-254-8801  
*Attorney for Walden's Ridge Utility District*



R. DALE GRIMES BPR # 006332  
Bass, Berry & Sims PLC  
150 Third Avenue, South, Suite 2800  
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(615) 742-6244



A. W. TURNER, JR. BPR # 026091  
In House Counsel  
Tennessee-American Water Company  
2300 Richmond Road  
Lexington, KY 40502  
(859) 268-6339

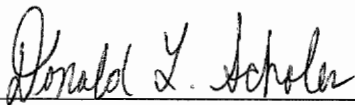
*Attorneys for  
Tennessee-American Water Company*

<sup>1</sup> The Company calculated the amount of the credit to be \$22,634.50 as shown on Exhibit 7, but it is willing to accept for the purposes of this proceeding only that this amount be \$22,647.23. The difference between the two calculations is that the Company converts the water sold to the District in hundred cubic feet using the conversion factor of 1 cubic foot = 7.5 gallons for billing purposes, and the District takes the position the conversion factor should be 1 cubic foot = 7.48 gallons.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing Stipulation of Facts was served via first class U.S. Mail on June 30, 2010, upon:

Ryan L. McGehee  
Assistant Attorney General  
Office of the Attorney General  
Consumer Advocate and Protection Division  
P. O. Box 20207  
Nashville, TN 37202-0207

  
\_\_\_\_\_  
DONALD L. SCHOLES



## WATER PURCHASE AGREEMENT

THIS AGREEMENT, made this 15<sup>th</sup> day of July 2003 by and between

Tennessee-American Water Company ("Tennessee-American"), located at 1101 Broad Street, Chattanooga, Tennessee

and

Walden's Ridge Utility District ("Walden's Ridge"), located at 3900 Taft Highway, Signal Mountain, Tennessee

WHEREAS, Tennessee-American, a Tennessee corporation, is a public utility which owns and operates a water utility system in and around the City of Chattanooga, Tennessee including the contiguous cities of Red Bank, East Ridge, Ridgeside, and Lookout Mountain, plus the cities of Rossville and Lookout Mountain, Georgia and areas in the Georgia counties of Dade, Walker and Catoosa; and

WHEREAS, Walden's Ridge wishes to purchase all of its water supply from Tennessee-American; and

WHEREAS, Tennessee-American has the capability to provide all of the water supply currently required by Walden's Ridge and is willing to construct a water supply pipeline and booster station, which will provide a sufficient volume of water in order to serve as WRUD's sole source of supply; and

WHEREAS, Walden's Ridge and Tennessee-American are desirous of establishing an Agreement for the purchase and sale of water for a fixed period of time; and

WHEREAS, the parties have reached an Agreement for the sale and purchase of water which they now desire to record in writing;

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

**SECTION I**  
**EXCLUSIVE SUPPLIER**

Tennessee-American agrees to sell and Walden's Ridge agrees to buy, during the term of this Agreement and any extension hereof, all of the potable and raw water requirements of Walden's Ridge, as it now exists or may hereafter be expanded, in conformity with the provisions hereof.

**SECTION II**  
**CONSTRUCTION OF FACILITIES**

(A) Tennessee-American shall construct, at an estimated cost of \$2.4 million, a water supply pipeline and booster station from its existing distribution system to the Walden's Ridge water tank near Taft Highway, which will provide a sufficient volume of water in order to serve as Walden's Ridge sole source of supply. This water supply pipeline will be capable of delivering up to 2.9 million gallons of water per day at the top of the mountain. The estimated construction time, from the time of a final non-appealable order from the Tennessee Regulatory Authority ("TRA") granting approval of the project, until the connection to the system and delivery of water, is eighteen (18) months. In the event that the construction bid price exceeds \$2.4 million by 5% or more, Tennessee-American shall have the right to negotiate an adjustment in the price for the sale of water as provided in Section III hereof or terminate this Agreement.

(B) If any conditions or requirements are imposed by any regulatory authority, or court, which make this project economically unfeasible, Tennessee-American has the right to withdraw and terminate the Agreement.

(C) As part of this consideration, Walden's Ridge agrees that Tennessee-American will be the sole and exclusive supplier of potable and raw water to Walden's Ridge, as it now exists or

hereafter be changed, except as noted below in this Section, and that Walden's Ridge will not, without prior written consent of Tennessee-American, receive potable or raw water service from any person or entity (including Walden's Ridge and its own customers), for the period of time under the Agreement including any extensions or renewals. The parties agree that the approximately eighty (80) current Walden's Ridge customers in the Falling Water Community located on Levi Road, Ferry Road, Pickett Gulf Road, Levi Cemetery Road, Courtney Road and Godsey Road, will be an exception, which allows Walden's Ridge to seek an alternative source for these customers.

(D) In the event Walden's Ridge terminates the Agreement prior to the expiration of forty (40) years from the Date of Service, as defined below, or fails to renew the agreement for a period of time adequate to allow Tennessee-American an opportunity to recover its investment, or if Tennessee-American is no longer the sole and exclusive provider of potable and raw water to Walden's Ridge, or fails to pay Tennessee-American as provided herein, then Walden's Ridge, and its successors and assigns, agree to pay Tennessee-American, within thirty (30) days following such termination or event, the balance of the undepreciated costs, on a straight-line basis, of Tennessee-American's pipeline and all other facilities that are constructed to serve Walden's Ridge.

(E) Walden's Ridge will decommission and terminate its existing source of supply and treatment facilities upon completion of the Tennessee-American water supply pipeline extension and connection to the Walden's Ridge system and no later than ninety (90) days following the Date of Service, as defined below. As part of this consideration, and upon completion of the Tennessee-American water supply pipeline and booster station, Walden's Ridge agrees to exclusively lease to Tennessee-American, for a period of forty (40) years from the Date of Service as defined below, the 6" and 8" welded steel water supply lines, along with perpetual easements, from its Mountain Station at the end of Levi Cemetery Road to top of the mountain.

**SECTION III**  
**SALE OF WATER**

(A) The water from the Tennessee-American pipeline shall be provided to Walden's Ridge at a rate of \$1.25/1000 gallons, except for the pass-through cost as identified in Section III (B) herein, for the first three (3) years, beginning with the date that water service is first taken from these facilities ("Date of Service"). Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or to propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate.

(B) From the date this Agreement is executed and during the first three (3) years from the Date of Service under this Agreement, in the event that electric costs, which can be directly identified with this project, increase, Walden's Ridge agrees to meet with Tennessee-American to discuss an equitable pass-through of those cost increases if so requested by Tennessee-American.

(C) Walden's Ridge will permit Tennessee-American to use the Walden's Ridge distribution system as a conduit through which Tennessee-American may wheel water to other water utility districts and other customers as agreed to by the parties, which agreement by Walden's Ridge shall not be unreasonably withheld. The parties agree to meet within ninety (90) days after execution of this Agreement to define the territory that will be served by Walden's Ridge. The wheeling charge from Walden's Ridge to Tennessee-American shall be at a rate of \$.39/1000 gallons. This rate is guaranteed for three (3) years from the Date of Service. Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted

cost of service methodology. Tennessee-American has the right, within ninety (90) days, to agree to this rate or to propose an alternative rate. If the Parties do not agree on the rate change, then the Parties will refer the matter to a neutral mediator. If mediation does not resolve the matter, either of the Parties may take the matter to the TRA, if applicable, or Utility Management Review Board or seek Judicial Review as necessary for resolution. As part of the consideration under this agreement, Tennessee-American shall have the right, at the cost specified above or at a rate that may change from time to time as agreed by the parties, even after termination of the agreement, to transfer water through Walden's Ridge facilities.

(D) Walden's Ridge will not be charged by Tennessee-American for any water supplied through its system that is transferred to other water utility districts and/or customers outside the Walden's Ridge service area. Tennessee-American shall install a meter or meters on the Walden's Ridge distribution system where appropriate in order to measure the volume of water that is transferred. Walden's Ridge will have reasonable access to such meters at all times.

#### **SECTION IV** **FLUORIDATION OF WATER SUPPLY**

Tennessee-American will fluoridate the water supply to Walden's Ridge, in accordance with the Tennessee Department of Environment and Conservation Rule 1200-5-1-17 (20), which requires the maintenance of a monthly average concentration of fluoride between 0.9 mg/l and 1.3 mg/l, unless required to do otherwise by applicable law or regulations.

#### **SECTION V** **OPERATIONAL REQUIREMENTS**

(A) In order to minimize utilization of the peaking capacity of Tennessee-American, Walden's Ridge will provide, by the Date of Service, adequate storage to provide for its own

maximum hour needs. Walden's Ridge shall maintain a minimum of one-day of water supply storage on its distribution system.

(B) Walden's Ridge agrees to cooperate with Tennessee-American in making improvements as needed to its distribution system in order to efficiently facilitate the wheeling of water through its system to other water utility district customers of Tennessee-American or other customers of Tennessee-American outside the Walden's Ridge service area. Any such improvements, which are deemed necessary by Tennessee-American to adequately wheel water through the Walden's Ridge system for the benefit of Tennessee-American, shall be done at Tennessee American's expense.

(C) Tennessee-American will conduct a one-time comprehensive leak survey along Walden's Ridge transmission mains that are located in Taft Highway between Walden's Ridge twin storage tanks (located at the old Walden's Ridge office) and the end of the line near Grandview subdivision. This leak survey will be at no cost to Walden's Ridge. However, Walden's Ridge will be responsible for uncovering and repairing any identified leaks. The purpose of the survey will be to identify and locate leaks to help Walden's Ridge reduce its unaccounted for water.

#### **SECTION VI** **CUSTOMERS AT BOTTOM OF MOUNTAIN**

In the event that Walden's Ridge, at any time in the future, decides to divest itself of the approximately eighty (80) customers, and as that number of customers may change from time to time, at the base of the mountain near the Soddy-Daisy system, Tennessee-American will be granted the right of first refusal to purchase from Walden's Ridge the facilities necessary to serve these customers at a price not to exceed the actual, bona fide offer made to Walden's Ridge for the facilities.

**SECTION VII**  
**METERING**

Metering of the water sold under this Agreement shall be at the point where Tennessee-American's water supply pipeline is connected to the Walden's Ridge water tank near Taft Highway.

**SECTION VIII**  
**BILLING**

During its normal billing cycle each month, Tennessee-American will issue an invoice to Walden's Ridge for Walden's Ridge metered usage during the prior month. Payment of such invoice will be made by Walden's Ridge on or before eighteen (18) days after receipt of the invoice. Interest and penalties shall accrue on the unpaid balance at the rate and amounts provided in Tennessee-American's filed tariff for its customers.

**SECTION IX**  
**APPROVALS BY TENNESSEE REGULATORY AUTHORITY**

It is understood and agreed that this Agreement is conditioned on approval by the TRA. Promptly upon execution of this Agreement, Tennessee-American shall file an application for approval with the TRA and take such action in good faith as may be necessary to obtain the appropriate approval. Service provided hereunder will be pursuant to the rules and regulations of the TRA as may be changed from time to time during the term of this Agreement. Walden's Ridge agrees to provide all reasonable support for such regulatory approval.

**SECTION X**  
**TERM OF AGREEMENT**

The term of this Agreement shall be for a period of forty (40) years, beginning on the Date of Service. In consideration of the requirement for Walden's Ridge to have a

reliable source of supply at all times, if the Company should desire to terminate this Agreement after the Date of Service and prior to the end of the term, except for breach of this Agreement by Walden's Ridge, the Company will provide Walden's Ridge with three (3) years advance written notice of such desire to terminate.

#### **SECTION XI** **FORCE MAJEURE**

Neither Walden's Ridge or Tennessee-American shall be liable for damages to the other for any act, omission, or circumstance occasioned by or in consequence of strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, acts of terrorism, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, civil disturbances, explosions, breakage, or accident to machinery or lines of pipe, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. Failure to prevent or settle any strike or strikes shall not be considered to be a matter within the control of the party claiming suspension. Such causes or contingencies affecting such performance shall not relieve Walden's Ridge from its obligation to make payment of amounts due hereunder.

#### **SECTION XII** **RENEWAL OF AGREEMENT**

This agreement may be renegotiated for additional periods of time beyond the term of this Agreement. Negotiations to extend the term of this Agreement shall commence no later than six (6) months prior to the expiration date of this Agreement.



However, the rates to be charged during any renewal period shall also be subject to prior approval by the Tennessee Regulatory Authority.

### **SECTION XIII** **MISCELLANEOUS PROVISIONS**

#### **(A) Assignment**

This Agreement shall be binding on the successors and assigns of Tennessee-American. Upon obtaining written approval from Tennessee-American, which will not be unreasonably withheld, this Agreement may be assigned by Walden's Ridge to any successor in the operation of the distribution facilities currently owned by Walden's Ridge.

#### **(B) Notices**

Any notice required or permitted to be given by one of the parties to this Agreement shall be given by U.S. mail, personal delivery or by overnight carrier to the other party at the address set forth below:

Tennessee-American Water Company  
1101 Broad Street  
P. O. Box 6338,  
Chattanooga, Tennessee 37377  
Attn: President

Walden's Ridge Utility District  
3900 Taft Highway  
Signal Mountain, Tennessee 37377  
Attn: General Manager

Any notice so given shall be deemed given upon its deposit in the U.S. mail, upon personal delivery or upon its delivery to the overnight carrier.

**(C) Governing Law**

This Agreement shall be governed by the laws of the State of Tennessee.

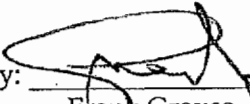
**(D) Severability**

In the event that any provision hereof is found to be invalid or unenforceable, such invalidity or unenforceability shall not impair or limit the validity or enforceability of any other provision hereof, each of which shall continue in full force and effect, and this Agreement shall be construed as if such invalid or unenforceable provisions were omitted from the Agreement.

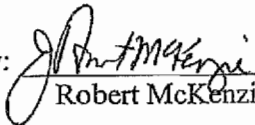
**(E) Entire Agreement**

This Agreement constitutes the entire Agreement between Walden's Ridge and Tennessee-American with respect to the subject matter contained in the Agreement, except that Walden's Ridge is subject to the rules, regulations and other applicable conditions and provisions set forth in Tennessee-American's tariff on file with the Tennessee Regulatory and as from time to time amended. This Agreement shall not be amended without the prior written consent of both parties. No modification of this Agreement or waiver of any of its terms and conditions will be effective unless set forth in a written document signed by both parties.


WALDEN'S RIDGE UTILITY DISTRICT

By:   
Frank Groves, Jr.

Its: President

By:   
Robert McKenzie

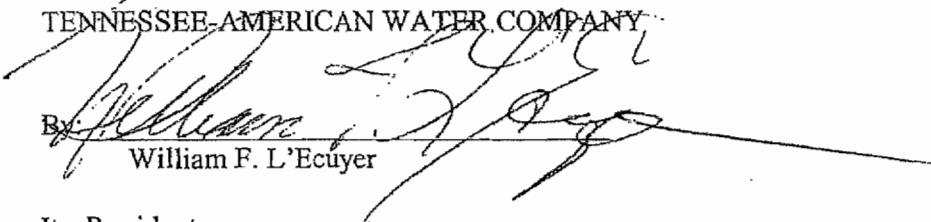
Its: Treasurer

By:   
David J. Fulton

Its: Secretary

District Seal Here

TENNESSEE-AMERICAN WATER COMPANY

By:   
William F. L'Ecuier

Its: President

ACKNOWLEDGEMENT  
FOR WALDEN'S RIDGE UTILITY DISTRICT

STATE OF TENNESSEE           )  
  )  
COUNTY OF Hamilton       )

The foregoing instrument was acknowledged before me this 14 day of July  
\_\_\_\_\_, 2003, by **Frank Groves, Jr.**, as President of Walden's Ridge Utility District.

My Commission expires: July 11, 2005  
Katherine Loneragan  
NOTARY PUBLIC, Chattanooga, TN

STATE OF TENNESSEE           )  
  )  
COUNTY OF Hamilton       )

The foregoing instrument was acknowledged before me this 14<sup>th</sup> day of July  
\_\_\_\_\_, 2003, by **Robert McKenzie**, as Treasurer of Walden's Ridge Utility District.

My Commission expires: March 11, 2006  
Nancy A. Boy  
NOTARY PUBLIC, Chattanooga, TN

STATE OF TENNESSEE           )  
  )  
COUNTY OF Hamilton       )

The foregoing instrument was acknowledged before me this 14<sup>th</sup> day of July  
\_\_\_\_\_, 2003, by **David J. Fulton**, as Secretary of Walden's Ridge Utility District.

My Commission expires: March 11, 2006  
Nancy A. Boy  
NOTARY PUBLIC, Chattanooga, TN

ACKNOWLEDGEMENT  
FOR TENNESSEE-AMERICAN WATER COMPANY

STATE OF TENNESSEE                     )  
   )  
COUNTY OF Hamilton                     )

The foregoing instrument was acknowledged before me this 14<sup>th</sup> day of July  
          , 2003, by **William F. L'Ecuier, as President**, of Tennessee-American Water Company.

My Commission expires: April 7, 2004

Virginia Roseann Scaap  
NOTARY PUBLIC, Chattanooga, TN

**WALDEN'S RIDGE UTILITY DISTRICT**  
**3900 TAFT HIGHWAY**  
**SIGNAL MOUNTAIN, TENNESSEE 37377**

**COMMISSIONERS:**

**FRANK GROVES, JR., PRESIDENT**  
**ROBERT MCKENZIE, TREASURER**  
**DAVID J. FULTON, SECRETARY**

**DAVID STREET, JR., MANAGER**  
**DEE MOLES, ATTORNEY**

**WATER PURCHASE AGREEMENT**  
**AMENDMENT A**

**copy**

This is an amendment to the Water Purchase Agreement between Tennessee-American Water Company and Walden's Ridge Utility District signed the 14<sup>th</sup> day of July 2003. This Amendment (the "Amendment") to the Agreement is, made this 14<sup>th</sup> day of January, 2004, between and among WALDEN'S RIDGE UTILITY DISTRICT (hereinafter "WRUD"), and TENNESSEE-AMERICAN WATER COMPANY (hereinafter "TAWC").

Upon reviewing our records, it appears that WRUD and TAWC did not formally recognize the renegotiated purchase rate for which WRUD will charge TAWC for water purchased by TAWC from WRUD during the interim period (approximately 18 months) until TAWC has the new water transmission main installed to deliver water to WRUD.

At this time, the only detail found omitted is that WRUD will charge \$2.05 per 1000 gallons for all water sold to TAWC to supply the Lone Oak and Suck Creek Utility District areas and other areas as TAWC may expand its system in the future.

If for any reason TAWC exercises their option to withdraw from the planned water transmission main installation, then, WRUD reserves the right to bill at the original \$2.98 per 1000 gallons retroactive to the activation of water supply to the Lone Oak and Suck Creek Utility District areas and other areas as TAWC may have expanded its system up to the time of withdrawal.

IN WITNESS WHEREOF, WRUD and TAWC, have agreed to this Amendment A to be signed by the proper officers thereunto duly authorized, all as of the day and year first above written.

WALDEN'S RIDGE UTILITY DISTRICT

3900 TAFT HIGHWAY  
SIGNAL MOUNTAIN, TENNESSEE 37377

COMMISSIONERS:

FRANK GROVES, JR., PRESIDENT  
ROBERT MCKENZIE, TREASURER  
DAVID J. FULTON, SECRETARY

DAVID STREETER, MANAGER  
DEE HOBBS, ATTORNEY

WALDEN'S RIDGE UTILITY DISTRICT

BY: \_\_\_\_\_

Frank Groves, Jr.  
Its: President

WITNESS:

BY: \_\_\_\_\_

David Streeter  
Its: General Manager

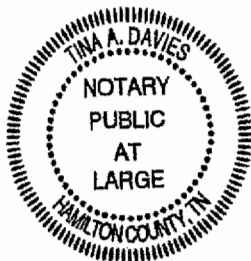
Acknowledgment for Walden's Ridge Utility District

STATE OF TENNESSEE )

COUNTY OF Hamilton )

The foregoing instrument was acknowledged before me this 09 day of January, 2004, by  
Frank Groves, Jr., as President of Walden's Ridge Utility District.

My Commission expires: 12 August 2007



Tina A. Davies

NOTARY PUBLIC, Chattanooga, TN.

WALDEN'S RIDGE UTILITY DISTRICT  
3900 TAFT HIGHWAY  
SIGNAL MOUNTAIN, TENNESSEE 37377

COMMISSIONERS:

FRANK GROVES, JR., PRESIDENT  
ROBERT MCKENZIE, TREASURER  
DAVID J. FULTON, SECRETARY

DAVID STREETER, MANAGER  
DEE HOBBS, ATTORNEY

TENNESSEE-AMERICAN WATER COMPANY

BY: David Schultz  
David Schultz  
Its: President

Acknowledgment for Tennessee-American Water Company

STATE OF TENNESSEE )  
COUNTY OF Hamilton )

The foregoing instrument was acknowledged before me this 14<sup>th</sup> day of January, 2004, by David Schultz, as President of Tennessee-American Water Company.

My Commission expires: April 7, 2004

Virginia D. Searf  
NOTARY PUBLIC, Chattanooga, TN.



## BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 16, 2004

IN RE:

TENNESSEE-AMERICAN WATER COMPANY -  
APPROVAL OF SPECIAL CONTRACT WITH WALDEN'S  
RIDGE UTILITY DISTRICT

)  
)  
) DOCKET NO.  
) 03-00452  
)

---

**ORDER APPROVING SPECIAL CONTRACT**

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This matter came before Chairman Deborah Taylor Tate, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority ("TRA" or "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on October 21, 2003, for consideration of a petition filed by Tennessee-American Water Company ("Tennessee-American") seeking approval of an agreement for Tennessee-American to provide water for resale to Walden's Ridge Utility District ("Walden's Ridge").

**Background**

On July 24, 2003, Tennessee-American petitioned the Authority for approval of a Water Purchase Agreement ("Special Contract") with Walden's Ridge. This Special Contract was negotiated by the parties and submitted to the Authority for approval pursuant to Tenn. Comp. R. & Regs. 1220-4-1-.07, which states:

Special contracts between public utilities and certain customers prescribing and providing rates, services and practices not covered by or permitted in the general tariffs, schedules or rules filed by such utilities are subject to supervision, regulation and control by the Authority. A copy of such special agreements shall be filed, subject to review and approval.

No other interested party requested intervention in this matter.

### **Terms of the Special Contract**

The term of the Special Contract is for forty (40) years from the “date of service,” defined as the date that water is first taken from the Tennessee-American pipeline. As part of the agreement, Tennessee-American will construct a water supply pipeline and booster station from its existing distribution system to the Walden’s Ridge water tank at an estimated cost of \$2.4 million. If the construction bid price exceeds \$2.4 million by five percent (5%) or more, Tennessee-American has the right under the Special Contract to negotiate an adjustment in the price for the sale of water or terminate the contract.<sup>1</sup> In return, Tennessee-American will be the sole and exclusive provider of potable and raw water to Walden’s Ridge, and Walden’s Ridge will decommission and terminate its water supply and treatment facilities within ninety (90) days following the date of service.

The agreement provides for the sale of water by Tennessee-American to Walden’s Ridge at a rate of one dollar and twenty-five cents (\$1.25) per one thousand (1,000) gallons for the first three (3) years of the contract, plus a negotiable pass-through of any increased electric costs identified with the project. After the initial three-year period, if Tennessee-American proposes a rate change, Walden’s Ridge can agree to the new rate or propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate.

The agreement also stipulates that Tennessee-American can use Walden Ridge’s distribution system to resell (or “wheel”) water to other neighboring utilities. The resale (or “wheeling”) rate under the terms of the agreement will be thirty-nine cents (\$.39) per one thousand (1,000) gallons and will be fixed for the first three (3) years of the agreement. If any proposed change to the wheeling rate after the initial three-year period cannot be agreed upon by the parties, the contract

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<sup>1</sup> At the Authority Conference on October 21, 2003, Mr. Coleman Bush of Tennessee-American committed to the panel that if Tennessee-American petitions the TRA in future rate cases for a rate adjustment to permit full recovery of the \$2.4 million construction costs, the rate adjustment will apply only to Tennessee-American’s Walden’s Ridge customers and not to other customers of Tennessee-American. See *Transcript of Authority Conference*, pp. 44-45 (October 21, 2003).

requires mediation. If mediation is unsuccessful, pursuant to the contract either of the parties may take the matter to the TRA, the Utility Management Review Board or the courts<sup>2</sup>

### **Findings and Conclusions**

Based upon the terms of the Water Purchase Agreement previously set forth, the Authority finds the agreement justifies a departure from Tennessee-American's tariff through a special contract. The Special Contract will enable Tennessee-American to generate additional revenues that will help offset future rate increases for existing customers and benefit its ratepayers

### **October 21, 2003 Authority Conference**

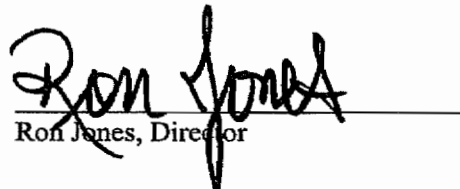
The Directors of this voting panel considered Tennessee-American's petition for approval of the Special Contract at the regularly scheduled Authority Conference held on October 21, 2003. During the Conference, the panel found that the Special Contract was in the public interest and after careful consideration voted unanimously to approve the petition.

### **IT IS THEREFORE ORDERED THAT:**

The Special Contract by and between Tennessee-American Water Company and Walden's Ridge Utility District is hereby approved.

  
Deborah Taylor Tate, Chairman

  
Sara Kyle, Director

  
Ron Jones, Director

<sup>2</sup> This particular provision of the contract was discussed at the Authority Conference on October 21, 2003 by Mr George Masterson of Tennessee-American Water, who told the voting panel the contract states that if the parties "can't agree after mediation, that either party can bring the matter to the TRA on the wheeling charge" *Transcript of Authority Conference*, p. 44 (October 21, 2003)



Tennessee American Water  
1101 Broad Street  
Chattanooga, TN 37402  
amwater.com

P 423-755-7607  
F 423-755-7634

June 1, 2009

Mr. Ron West  
Walden's Ridge Utility District  
3900 Taft Highway  
Signal Mountain, TN 37377

Dear Ron:

It is the goal of Tennessee American Water to provide the highest quality of water service at the lowest possible price. We have worked diligently to control operational expenses and have succeeded in keeping them at about the annual rate of inflation. While doing so, the company has continued to make the necessary investments to maintain the quality of the water system.

To continue to provide the best product possible, it became necessary for Tennessee American to increase water rates. Effective on June 1, 2009, the water rate charged by Tennessee American Water for service under the water purchase agreement with your water system dated July 14, 2003 will increase by 12.77% from \$1.25 per thousand gallons (\$0.9375 per hundred cubic feet) to \$1.41 per thousand gallons (\$1.0572 per hundred cubic feet) in accordance with the written order issued on January 13, 2009 by the Tennessee Regulatory Authority (TRA) in Case No. 2008-00039. Tennessee American Water affirms that the TRA has the ultimate jurisdiction regarding the pricing of water service under the contract between Walden's Ridge Utility District and Tennessee American Water Company and has the authority to determine the authorized rate adjustment after consideration of the cost of service study filed by the Company in the rate case filed with the TRA in 2008.

Tennessee American Water, in accordance with Rule 8.12 of the Rules, Regulations and Conditions of Water Service as approved by the TRA on March 23, 1988, must use the conversion factor used for conversion from hundred cubic feet to thousand gallons which shall be the basis for water consumption on the use of one cubic foot as being equivalent to seven and one-half (7.5) U. S. gallons.

Thank you for your cooperation and we look forward to continuing to serve your water needs.

Sincerely,

John S. Watson  
President

RECEIVED  
JUN 03 2009

## BRANSTETTER, STRANCH &amp; JENNINGS, PLLC

ATTORNEYS AT LAW  
227 SECOND AVENUE NORTHFOURTH FLOOR  
NASHVILLE, TENNESSEE 37201-1631  
TELEPHONE (615) 254-8801  
FACSIMILE (615) 250-3937CECIL 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. WALLOF COUNSEL:  
ROBERT J. RICHARDSON, JR. \*\*\*\*ALSO ADMITTED IN CA  
\*\*ALSO ADMITTED IN KY  
\*\*\*ONLY ADMITTED IN OH

July 1, 2009

John S. Watson, President  
Tennessee-American Water Company  
1101 Broad Street  
Chattanooga, TN 37402

Re: Notice of Rate Increase Effective June 1, 2009 for Walden's Ridge Utility District

Dear Mr. Watson:

I represent Walden's Ridge Utility District (the District). The District is in receipt of your letter dated June 1, 2009 in which you notify that District that effective June 1, 2009, the water rate charged to the District by Tennessee-American Water Company (the Company) will be increased 12.77% making the new rate \$1.41 per 1,000 gallons. I understand that the Company is implementing this rate increase in accordance with an order issued by the Tennessee Regulatory Authority (TRA) on January 13, 2009, in Tennessee-American's most recent rate case.

Any changes to the water rate the Company charges the District is governed by Section III of the parties' Water Purchase Agreement dated July 14, 2003 (the Contract). Section III provides, "Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or to propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate." The Company has not complied with this provision in implementing the proposed rate of \$1.41 per 1,000 gallons. While the District understands that the TRA has the ultimate authority in determining the rate provided to the District, this authority does not relieve the Company from following the procedures set forth in Section III for implementing a rate increase. The procedures set forth in Section III clearly contemplate that the Company will propose a new rate based upon an industry accepted cost of service methodology. If no agreement can be reached after the rate is proposed, then and only then, is it appropriate for the TRA to become involved in approving a new rate. This procedure was approved the TRA when it originally approved the July 14, 2003 Contract.

Tennessee Law requires that parties to the Contract act in good faith in carrying out their obligations implied by the agreement. The Company has not done this.

John S. Watson, President

July 1, 2009

Page 2

Therefore, the District requests that the Company provide it with the cost of service study performed by the Company to support the rate increase from \$1.25 per 1,000 gallons to \$1.41 per 1,000 gallons. The District will review this cost of service study and determine whether it is in agreement with the proposed rate or not. Please forward the cost of service study to the District as soon as you can.

In your June 1, 2009, letter, you indicate that the District will be charged the new rate per hundred cubic feet rather than per thousand gallons as the existing rate. You state that the conversion factor which will be used is one cubic foot being equivalent to 7.5 gallons. In support of your position, you state that Rule 8.12 of the Company's rules and regulations in its tariff provide for this conversion factor. The District disagrees with your position. The District asserts that the proper conversion factor should be 7.48 gallons. The rate the Company is charging the District is not a tariff rate. The rate is a rate set by the terms and provisions of a special contract. Therefore, the 7.5 gallon conversion factor set forth the Company's rules and regulations in its tariff has no application to the District.

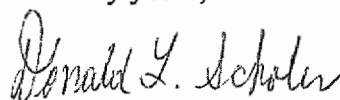
Please be advised that the District expects to propose an increase in the wheeling charge set forth in Section III to the Contract in the near future for cost increases since the wheeling charge was initially adopted. Currently, the District is paying the Company for water which is transported through the District's system to Lone Oak Utility District. Because the District has a significant water loss, the current wheeling charge does not adequately compensate the District for the cost associated with this water loss.

In the Contract, the Company agreed to perform a water leak survey of the water main lines on Taft Highway. The Company has never performed the water leak survey it agreed to perform. Please advise the District of the date the Company will begin the water leak survey.

If you need to discuss any of these issues with me or the District further before the Company provides its cost of service study to support the \$1.41 per 1,000 gallons rate, please let me know. The District will continue to pay the old rate of \$1.25 per 1,000 gallons until these issues are resolved.

You may contact the District's office during normal business hours, Monday through Friday between the hours of 8:00 – 12:00 and 12:45 – 4:30 by telephone at 423.886.2683, by fax at 423.886.1940 or by email at [ron.wrud@comcast.net](mailto:ron.wrud@comcast.net).

Sincerely yours,



DONALD L. SCHOLES

c: Ron West

**IMPORTANT! READ THIS IMMEDIATELY!****FINAL NOTICE PRIOR TO DISCONNECTION**

NOTICE DATE: 07/29/2009

Your bill for \$4,134.25 is overdue. Because your bill is overdue we will shut off water on Wednesday, August 12, 2009.

\*\*\* TO STOP THE SHUT OFF, YOU MUST DO ONE OF THE FOLLOWING AT ONCE. \*\*\*

Pay the total amount overdue or contact our office at 1-866-641-2109 if your payment has been made or if you have any questions concerning your service bill.

For authorized payment agent locations, call Customer Service at:  
1-866-641-2109

If your water service is shut-off, a disconnect/reconnect charge of \$15.00 in addition to the amount due above, is required before your service will be restored.

If you have any questions or need more information, please call us. Our customer service representatives are on duty 24 hours a day, 7 days a week to assist you.

Sincerely Yours,  
Tennessee American Water

Office hours: 24 hours a day, 7 days a week  
Customer Service: 1-866-641-2109  
Visit us on the INTERNET at: <http://www.tawc.com>



TENNESSEE

AMERICAN WATER

Tennessee American Water

P 423.755.7621

P O Box 6338

F 423.755.7636

1101 Broad Street

Chattanooga, TN 37401-6338

www.tawc.com

August 14, 2009

Mr. Donald L. Scholes  
Branstetter, Stranch, Jennings, PLLC Attorneys at Law  
227 Second Avenue North, Fourth Floor  
Nashville, TN 37201-1631

Subject: Walden's Ridge Utility District Bill

Dear Mr. Scholes:

This letter is a follow-up to your letter of July 1, 2009, our telephone conversation of July 29, 2009 and the letter of July 13, 2009, from Ron West, General Manager of Walden's Ridge Utility District (WRUD). You have asked about the new wholesale rate for water ordered by the Tennessee Regulatory Authority (TRA) and your bill reflecting that new rate. As A.W Turner, internal legal counsel for Tennessee American Water (TAW), you, and I discussed during the July 29, 2009, conference call, the special contract entitled "Purchase Water Agreement" between WRUD and Tennessee American Water Company (TAW) has language that permits a price increase after the initial three years following the service activation, which was February 1, 2006. During our conversation, you asked us to provide you with the statute requiring us to charge the new, higher water rate to WRUD. The statute is Tennessee Code Annotated Section 65-5-101(a), which reads:

**"§ 65-5-101. Public utilities; rates and charges.** (a) The Tennessee regulatory authority has the power after hearing upon notice, by order in writing, to fix just and reasonable individual rates, joint rates, tolls, fares, charges or schedules thereof, as well as commutation, mileage, and other special rates **which shall be imposed, observed, and followed thereafter by any public utility** as defined in § 65-4-101, whenever the authority shall determine any existing individual rate, joint rate, toll, fare, charge, or schedule thereof or commutation, mileage, or other special rates to be unjust, unreasonable, excessive, insufficient, or unjustly discriminatory or preferential, howsoever the same may have heretofore been fixed or established. In fixing such rates, joint rates, tolls, fares, charges or schedules, or commutation, mileage or other special rates, the authority shall take into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the public utility."

I have put in bold the language that requires us to charge the fee approved by the TRA.

As you pointed out, the contract does provide that TAW will support any new rate with "data and computations, which will be based on industry accepted cost of service methodology." TAW's rate application included those data and computations. Paul A. Herbert, President of Gannett Fleming, Inc.'s Valuation and Rate Division, prepared several cost of service studies for our company and was the TAW witness on those issues in the 2008 Rate Case. Mr. Herbert proposed in his study that rates for "other water utilities" classification should increase by 14.9% as shown in Part I, Page 6. As you requested, I have attached the applicable parts of his studies and testimony.

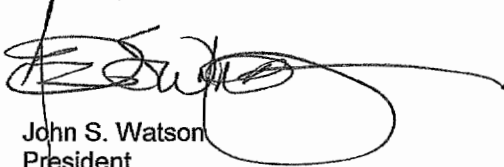


Page Two  
Letter dated August 14, 2009  
Mr. Donald Scholes

Finally, thank you also for the payment Ron West made on July 13, 2009, in the amount of \$39,125.63. WRUD owes a principal balance of \$4,134.25, which will be subject to the applicable late payment penalty until paid. We would request that the District remit the remainder of the outstanding balance, along with any late fees accrued, no later than August 21, 2009. However, we are unable to waive any late fees or interest due to a delay in payment. If you wish to challenge this bill or the rate, you may want to seek relief from the TRA.

We appreciate your business and ask for your prompt reply so that we can finalize this matter.

Sincerely,



John S. Watson  
President  
Tennessee American Water  
1101 Broad Street  
P O Box 6338  
Chattanooga, TN 37401-6338  
Phone 1-423-755-7607  
Fax 1-423-755-7634  
E-Mail address: John.Watson@amwater.com  
Website: www.tawc.com

cc: Ron West, Waldens Ridge U.D.  
Monty Bishop, TAW  
David McBay, TAW  
Kim Dalton, TAW



TABLE 1

Walden's Ridge Utility Account 173363-3							
Billing Period Ending	Current Water 100 cf	Current Rate	Current Water Charges	Late Fee	Current Bill Plus Late Fees	Payment Received	Balance due, As of Bill Date
6/24/2009	41734	7.196 x \$0.9375 34.538 x \$1.0572	\$ 43,259.88		\$ 43,259.88	(\$39,125.63)	\$ 4,134.25
7/24/2009				\$ 2,162.99			\$ 6,297.24
7/24/2009	52376	\$1.0572	\$ 55,371.91		\$ 57,534.90	(\$49,102.50)	\$ 12,566.65
8/24/2009	-	-	\$ -	\$ 2,766.60		\$0.00	\$ 15,335.25
8/24/2009	42300	\$1.0572	\$ 44,719.56		\$ 47,488.16	(\$10,403.66)	\$ 49,651.16
						(\$44,719.46)	\$ 4,931.69
9/23/2009			\$ -	\$ 2,235.98		\$ -	\$ 7,167.67
9/23/2009	33392	\$1.0572	\$ 35,302.02		\$ 37,538.00	(\$42,469.69)	\$ (0.00)
TOTAL			\$178,653.37	\$7,167.57	\$185,820.94	(\$185,820.94)	0

Explanation: Credit due to WRUD if rate increase should commence August 25, 2009. Instead of June 1, 2009, is the combination of the total "Late Fee" in Table 1 (\$7,167.57) plus the total "Variance" in Table 2 (\$15,466.97), which equals \$22,634.50. The parties have stipulated to the different total amount of \$22,647.22 for the reasons set forth in footnote 1 to the Stipulation.

TABLE 2

WRUD's Remittance based on old rates				
Current Water 100 cf	Rate	Water Payment Received	Water Charges Billed	Variance
41734	0.9375	(\$39,125.63)	\$43,259.88	\$4,134.26
52376	0.9375	(\$49,102.50)	\$55,371.91	\$6,269.41
42300	0.9375	(\$39,656.25)	\$44,719.56	\$5,063.31
33392	1.0572	(\$35,302.02)	\$35,302.02	\$0.00
		(\$163,186.40)	\$178,653.37	\$15,466.97