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Tuesday, April 29, 2014

Tennessee Regulatory Authority  
ATTN: Earl Taylor  
502 Deaderick St FL 4  
Nashville, TN 37243-0200

14-00048

**RE: Legends Ridge Homeowners Association, Inc.**

Dear Mr. Taylor:

I am writing to you on behalf of my client the Legends Ridge Homeowners Association, Inc. concerning the proposed conversion of Berry's Chapel Utility to the Harpeth Wastewater Cooperative. The owners who are the members of the Legends Ridge Homeowners Association have many reservations with this situation, and I am writing to you to highlight some of their concerns:

1. There has been no financial disclosure. It is my understanding that both my clients and the Attorney General's office have sought, **but not received**, the following financial disclosures:
  - a. Full financial statements which reflect operating expenses, balance sheet, and a statement of liabilities including debts and contingent liabilities.
  - b. A statement of potential risks, including pending or threatened lawsuits.
  - c. A list of any current or proposed plant repairs required by environmental regulations.
  - d. A complete list of debt, equity or obligation owed to present or past officers, owners, or board members.
  - e. An itemization of any assets owned or held in purchase or leaseback agreement.
  - f. An itemization of any debts or obligations owed to Tennessee Contractors Association.
  - g. An accounting of all funds collected under customers' charges with a list of repairs performed from said funds. Said list should include the cost of the repairs, the name of company completing the repairs, and copies of all bids received for such repairs.

- h. A statement of the form and amount of any compensation or benefits paid or to be paid to board members of Harpeth Wastewater Cooperative.
  - i. A statement of any legal fees incurred in the last year and the current outstanding balance on such fees.
- 2. There has been no financial oversight. The history of this situation is legend, as the attached article makes clear. This is a utility that has not been managed well, has done nearly everything to evade proper regulation, and now seeks to atone for all its sins by extracting substantial sums from its future members. My client is requesting that the Harpeth Wastewater Cooperative not be permitted to solicit membership until such time as full financial disclosure is made and an opportunity has been afforded for the books and accounts of the Berry's Chapel Utility to be audited.
- 3. There is no real choice being offered. My clients are concerned that they will be forced into membership with the threat of denial of service. They are concerned that the utility has huge debts that will then be passed to members through rate increases and assessments. They are concerned that this transaction could well benefit past or present owners, board members or officers at the expense of the customers.

In a perfect world, my clients would like to see Berry's Chapel Utility replaced with a qualified municipal utility. If that is not possible, before they are forced to join a cooperative that could well result in them continuing to pay exorbitant utility prices, they at least demand that the TRA assist the Attorney General with a full financial audit of this utility. Furthermore, my client asks the TRA to investigate whether the current or past board members, families or companies are financially benefitting from this cooperative at the expense of the customers.

Please do not hesitate to contact me if I may be of further assistance.

Sincerely,



William E. Miller

Enclosure(s) as indicated

CC: Charles Sergeant  
Jack Johnson  
Vance Broemel, Sr.

- Electric Co-op Today - <http://www.ect.coop> -

## Turning an Embattled Private Utility into a Co-op

Posted By [Michael W. Kahn](#) On April 28, 2014 @ 2:01 am In [Business & Finance](#), [Editor's Pick](#) | [Comments Disabled](#)

Mike Knotts is flush with success. Literally.



[1]

This 40-year-old wastewater treatment plant is just one of the challenges facing the new Harpeth Wastewater Cooperative. (Photo By: Mike Knotts)

By day, Knotts is the director of government affairs at the [Tennessee Electric Cooperative Association](#).<sup>[2]</sup> This spring, he took on a new responsibility: chairman of the board of directors of the new Harpeth Wastewater Cooperative.

Few people alive today were around when their electric co-op was established. But Knotts has been an active participant in turning a long-mismanaged sewer utility into the new co-op on the block.

### BUILD YOUR OWN

The story really begins some 40 years ago, when a developer wanted to build homes in a vacant part of Williamson County, Tenn., outside Nashville. "He built his own sewer system to serve that neighborhood," said Knotts, noting that it's a somewhat common business model.

Over the decades, the sewer utility was sold to one private owner after another. "All of those owners have been property developers. Everyone who has purchased that utility has purchased it for the purpose of developing a new neighborhood," said Knotts.

Many of those prospects failed, Knotts said, with the result that "every owner has been sitting on an asset that they don't know how to run, and that they no longer have any profit motive to own."

Wanting to get out from state regulation, the father and son who owned what became Berry's Chapel Utility reformed it as a nonprofit corporation in 2010.

"That backfired. The state passed a new law to keep them under regulation," Knotts said.

Being a nonprofit meant the owners had new responsibilities, including holding an annual meeting and allowing customers to elect a board of directors. But that never happened.

Fast forward to March 2014. Faced with high rates that were expected to climb even further, Knotts and several other customers took a bold step.

"Under the rights afforded to us under Tennessee law, we held a special meeting to elect our own board," said Knotts, who likened what happened to a "bloodless coup." The company's owners vowed to fight, but by the next day agreed to go peacefully.

### JUST LIKE A CO-OP

The new board, under Chairman Knotts, passed several member resolutions, including one that will change the corporate charter to read, "The corporation shall be operated at all times in a manner consistent with the principles embodied by a member-owned cooperative," as defined by the [International Cooperative Alliance](#).<sup>[3]</sup>

Tennessee law only officially recognizes electric and telephone co-ops, so the new Harpeth Wastewater Cooperative is technically a nonprofit corporation. Because of this, its 850 customers have to apply to become members; 130 have so far done so, and the new board hopes that eventually all customers will become members.

But Harpeth will "operate just like a co-op," Knotts said. Its first annual meeting will be held in August.

The new co-op faces numerous challenges, including the fact that



[4]

Mike Knotts, seen here at the 2014 NRECA annual meeting, chairs the board of the new Harpeth Wastewater Cooperative. (Photo By: Luis Gomez Photos)

"the company has no capital reserve whatsoever. None," said Knotts.

What it does have is a 40-year-old, near-fully depreciated wastewater treatment plant. "It would be like an electric co-op that hadn't replaced a pole in 40 years," said Knotts.

Members already pay some of the highest rates in Tennessee, and the previous owners had filed a rate increase notice with the state, seeking a 20 percent hike. Co-op leaders will have to determine whether that's justified.

And there's also the matter of gaining trust.

"There's been a lot of distrust of the utility over the years because of the profit motive of all of the previous owners," Knotts said.

"Our challenge is communicating to our customers that this is new, this is different. A big reason why we want to be a co-op is we want to tangibly demonstrate to folks that the only reason this company now exists is to serve you."

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[1] Image: <http://www.ect.coop/wp-content/uploads/2014/04/waste-water-treatment-plant.jpg>

[2] Tennessee Electric Cooperative Association.: <http://www.tnelectric.org/>

[3] International Cooperative Alliance.: <http://ica.coop/>

[4] Image: <http://www.ect.coop/wp-content/uploads/2014/04/Mike-Knotts-Sewer-Co-op.jpg>

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