

provide testimony on the ratemaking methodologies and calculations used to forecast the LHWS's cost of service and rate design moving forward.

Q: Mr. Moore, could you please describe the LHWS's water operations?

A: Yes. The LHWS currently provides water services to 122 residential water customers. The LHWS's service territory is approximately the extent of Renegade Mountain, a mountain located in Cumberland County, Tennessee just east of Crab Orchard, Tennessee and just south of Interstate 40. As the LHWS is currently in receivership and subject to the jurisdiction of the Thirteenth Judicial District Chancery Court, no Certificate of Public Convenience and Necessity has been sought or obtained from the Tennessee Regulatory Authority [hereinafter "the TRA" or "the Authority"] by the Receiver. The LHWS purchases water from the Crab Orchard Utility District and then redelivers such water to its customers. The system was originally designed and constructed in the late 1960s and early 1970s and then put into use in approximately 1972. The system was designed to use a pump station near the bottom of Renegade Mountain to transport water up the mountain through a six (6) inch diameter pipe, parts of which lay on the ground, pump the water into a water tank that sits atop the mountain, and then let gravity provide adequate pressure to deliver water through a main pipe running back down to service residential customers. However, at this time, the water tower is not being utilized due to (a) environmental concerns expressed by the Tennessee Department of Environment and Conservation; and (b) the Receiver's inability to lawfully use the water tower, as the water tower and the parcel upon which the tower sits are owned by another entity that is not a party to the receivership proceeding. At this time, the pumps in the pump station are constantly used to transport water up the mountain so as to provide adequate pressure

to the LHWS's customers. Overall, the LHWS is found to have been archaically designed, neglected for much of its life, and in need of numerous repairs and maintenance.

Q: Are all of the LHWS's current customers residential customers?

A: Yes, to the best of my knowledge.

Q: When was the LHWS's last rate change?

A: By order of Chancellor Thurman, the LHWS's rates were reduced from \$43.20 per customer per month to \$33.10 per customer per month on April 18, 2013. Chancellor Thurman's order was entered after a similar order was entered by the Authority in that same amount.

Q: Are there any particular expense items the LHWS is requesting in this docket?

A: Yes, and I would refer the Authority to the emergency petition and my later written testimony for a more thorough explanation of each rating element. I will, however, note three (3) extraordinary expense items at this time. First, a new engine/motor for one of the pumps (the back-up pump) appears to be an immediate necessity. This particular expense, estimated at Thirty-Four Hundred and Three Dollars (\$3403.00), is proposed to be recovered in a special assessment over a period of four (4) months after approval of the new rate. Second, there are incalculable costs for leak repairs and general maintenance to the LHWS. These costs are factored into the newly proposed rate at Two Thousand Dollars (\$2,000.00) per month. If the leak repairs and general maintenance expense does not exceed the amount collected, the Receiver proposes to retain the overage for additional unexpected maintenance or repair that may occur during the pendency of the receivership, and to address any cash flow problems the Receiver may

experience throughout the course of the receivership. Third, there are receivership costs that must be recovered. These costs are estimated at Eight Thousand Dollars (\$8000.00) per month. This is purely an estimate, but this figure is based upon (a) expenditures by the Receiver and its representatives since the institution of the receivership, and (b) the Receiver's judgment on the costs to properly administer the receivership estate going forward. In particular, the Receiver's fees and expenses, in the aggregate, for 2015, are as follows: October 2015: \$10,561.02. November 2015: \$5267.48. December 2015: \$6931.86. No rate of return or profit margin is being sought by the Receiver.

Q: What rate relief is the LHWS requesting?

A: The LHWS's current rates and charges are insufficient to cover its operating costs and the costs of the receivership. Without rate relief, the Receiver estimates that the LHWS will have a revenue deficiency of approximately \$104,452.00 for the 2016 calendar year. In order merely to cover its operating expenses, the Receiver is requesting that the Authority recommend to the Thirteenth Judicial District Chancery Court that the LHWS be allowed to increase rates and charges to eliminate any revenue deficiency in accordance with 1 of the 3 proposed tariff revision sheets provided by the Receiver. If ordered by Chancellor Thurman, customers will see an increase in rates and charges beginning with the first bill after the order is entered.

Q: Please explain how the LHWS's revenue deficiency was computed.

A: As delineated in footnote 6 of the LHWS's petition for emergency relief, post-receivership losses as of year-end 2015 (which constitutes the period of October 26, 2015 through December 31, 2015) were \$26,113.10. This is my best estimate of what a 3 month revenue deficiency would be, as the revenue deficiency in the 5 days in October

would likely equal the revenue deficiency for a full month. Therefore, that figure, \$26,113.10, was multiplied by four (4) to get the annual revenue deficiency number of \$104,452.00.

Q: Please explain the revenue requirement calculation for the LHWS in this case.

A: Most calculations, assumptions, and adjustments necessary to determine the LHWS's rate need were based on a review of the LHWS's financial and operational records in the hands of its accountant, Terry Stephens, as well as physically viewing the water system, including the pump station and the main supply line. The individual components of the requested rate are as follows:

Water Testing. This figure is calculated based upon a review of invoices provided to and paid by the LHWS over the past year or so.

Property Tax. There is no known property tax being assessed against the LHWS at this time. If the water tower and the parcel on which the water tower sits are ever conveyed to the Receiver as required by the settlement agreement entered into by and between the Authority and Laurel Hills Condominiums Property Owners Association, then it is likely that there may be a property tax assessment. At this time, the Receiver understands that the water tower and the parcel upon which the water tower sits are owned by an entity that is not a party to the receivership action.

Telephone Expense. There is no telephone expense, as those services are included within the Receiver's fee.

Insurance Expense. The Receiver has attempted in vain to procure insurance to cover the LHWS. Those attempts continue, but no provision is made in this filing for insurance.

Postage Expense. This figure is calculated based upon a review of invoices provided to and paid by the LHWS over the past year or so.

Engineering & Labor. This figure represents the amount paid to Mr. Gerald Williams to take care of any day to day needs on-site at Renegade Mountain, and is a continuation of the amount paid to Mr. Williams over the past year or so.

Construction Costs. No provision is made for construction costs as this is an emergency relief filing.

Depreciation. This figure is the amount calculated by the LHWS's accountant, Mr. Terry Stephens, who uses a straight line method to depreciate the LHWS's pump station asset. The figure utilized in this filing is consistent with the depreciation figure accepted by the Authority and the Cumberland County Chancery Court.

Penalties and Permits. This figure represents the amount owed to the Tennessee Department of Environment and Conservation [hereinafter "TDEC"] for a water system with less than 250 customer connections, and is consistent with the LHWS's previous rate filing. This figure is confirmed by invoices from TDEC and was further confirmed with a telephone call to a TDEC account technician.

Debt Interest Expense. No provision is made for debt interest expense.

Legal Expense. No provision is made for legal expense as all legal expenses are included in the Receiver's fee.

Accounting. This figure is based upon the Receiver's contract with the LHWS's accountant, Mr. Terry Stephens, who continues to provide bookkeeping services, and who it is planned will file tax returns on the LHWS's behalf.

Office Expense. No provision is made for office expense as all such expenses are included in the Receiver's fee.

Equipment Rental & Maintenance. No provision is made for equipment rental and maintenance, as no expenditure for any such items was made in 2015, and none is anticipated in 2016.

Maintenance & Repair. As indicated above, there are incalculable costs for leak repairs and general maintenance. It is impossible to estimate what those costs may be in 2016. These costs are factored into the newly proposed rate at Two Thousand Dollars (\$2,000.00) per month. If the leak repairs and general maintenance expense does not exceed the amount collected, the Receiver proposes to retain the overage for additional unexpected maintenance or repair that may occur during the pendency of the receivership, and to address any cash flow problems the Receiver may experience throughout the course of the receivership.

Wholesale Water Expense. Some judgment has been used to estimate future wholesale water expense. A review of the 2014 and 2015 invoices from the Crab Orchard Utility District, the LHWS's wholesale water supplier, demonstrates that the LHWS's average monthly bill for the 9/18/2014 through 9/18/2015 time period was \$2720.35. That review further demonstrates that the LHWS's average monthly bill for four (4) full months closely preceding the institution of the receivership (5/20/2015 through 9/18/2015) was \$2158.85. There was a spike in water usage in the Early Spring of 2015 that is causing the discrepancy. In an email colloquy with Mr. Everett Bolin, General Manager with the Crab Orchard Utility District, Mr. Bolin informed counsel for the Receiver stated the following: "I think going forward, the lower number will be correct. I know Gerald

[Williams] is working on some leaks, and isolating more. I think by spring, he will have it under control.” Accordingly, the \$2158.85 figure is used for the rate filing.

Electricity. For the twenty-one (21) month period closely preceding the institution of the receivership (1/1/2014-9/18/2015), the LHWS paid Volunteer Electric on average \$400.63 per month for electrical services for the water system. This figure is used in the proposed rate.

Rate of Return. As the LHWS is in receivership, no rate of return or margin is sought.

Receiver’s Fee. As indicated above, there are receivership costs that must be recovered. These costs are estimated at Eight Thousand Dollars (\$8000.00) per month. This is purely an estimate, but this figure is based upon (a) expenditures by the Receiver and its representatives since the institution of the receivership, and (b) the Receiver’s judgment on the costs to properly administer the receivership estate going forward. In particular, the Receiver’s fees and expenses, in the aggregate, for 2015, are as follows: October 2015: \$10,561.02. November 2015: \$5267.48. December 2015: \$6931.86.

Pump Assessment. Mr. Gerald Williams has indicated that a new engine/motor for one of the pumps (the back-up pump) will cost \$3403.00. He has indicated that this is a critical repair item that must be fixed immediately, else it could be devastating for the water system. It is recommended that this amount be collected over a period of four (4) months as a special assessment.

Pre-Rate Change Losses and Costs. Pre-rate change losses and costs have been calculated based upon financial information calculated by the Receiver on an accrual or incurred basis and reflect monies owed to the Receiver and other losses incurred since the

institution of the receivership. Those figures and calculations can be found in Exhibit C to the LHWS's petition for emergency relief.

Overall Recommendation. In light of the foregoing factors, I am of the opinion that the proposed rate design, no matter which proposed tariff sheet is utilized is necessary and reasonable and I recommend it to the Authority.

Q: Does this conclude your testimony.

A: Yes it does.

Respectfully submitted,

Laurel Hills Water System in Receivership

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Certificate of Service

The undersigned hereby certifies that a true and correct copy of the foregoing pre-filed direct testimony of Robert E. Moore, Jr., has been served upon the parties hereto and the other persons listed below, at:

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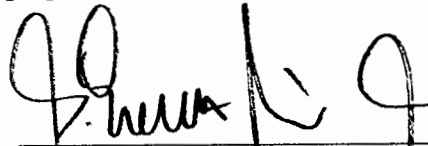
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