

TENNESSEE PUBLIC UTILITY COMMISSION

Kelly Cashman-Grams
General Counsel
(615) 770-6856



Andrew Jackson State Office Bldg.
502 Deaderick Street, 4th Floor
Nashville, TN 37243-0001

May 25, 2023

Electronically Filed in TPUC Docket
Room on May 25, 2023 at 2:53 p.m.

Via Email to Mason.Rush@ag.tn.gov

Mr. Mason C. Rush
Assistant Attorney General
Office of Tennessee Attorney General and Reporter
Financial Division, Consumer Advocate Unit
P.O. Box 20207
Nashville, Tennessee 37202

RE: Response to Request for Records under Tenn. Code Ann. § 65-4-118
Docket No. 21-00086, *In re Staff Compliance Audit of Superior Wastewater Systems, LLC's Compliance with Commission Rules 1220-04-13-.07 and 1220-04-13-.08 Regarding Financial Security and Rule 1220-04-13-.16 Regarding Affiliate Transactions*

Dear Mr. Rush:

I am in receipt of your letter of May 18, 2023, which requests copies of certain confidential and non-confidential records in the possession of the Commission from Superior Wastewater Systems, LLC related to the above-referenced docket file.

As the Consumer Advocate Division is a party in the case, as requested, I have attached all such documents filed since January 24, 2023, to-date. The attached files contain 4 confidential documents (3 .pdfs and 1 excel) and 11 non-confidential .pdf documents. The non-confidential documents will also be filed in the public docket file.

An electronic copy of this letter is also being sent to opposing counsel of record noted below. Should you have any questions concerning this information, please do not hesitate to contact me.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:



Kelly Cashman Grams, General Counsel

cc: TPUC Docket No. 21-00086
Ryan McGehee, Attorney for Party Staff, Ryan.McGehee@tn.gov
Charles B. Welch, Jr., Attorney for Superior Wastewater, CWelch@farris-law.com

From: [William Novak](#)
To: [Craig Cox](#)
Cc: [Joe Shirley](#); [David Foster](#); [Cole McCormick](#); [Patsy Fulton](#)
Subject: [EXTERNAL] Re: Superior Expense Questions 2022
Date: Monday, March 6, 2023 9:02:18 AM

Craig -

As best as I can piece this together, it appears that a former bookkeeper came up with the original \$0.30/hour loading rate for Workman's Compensation. Then, when the insurance company went up on the total charge, SWS increased the loading rate from \$0.30/hour to \$0.40/hour, but I can't get a complete and straight answer on how this was calculated.

However, it looks to me like the maximum charge to the utility would be less than \$500/year (max of \$20 per invoice, twice a month for 12 months). Is this correct? If so, then even at the full amount, it would seem to have a miniscule impact on the total costs.

Hal Novak, CPA
WHN CONSULTING
www.whnconsulting.com

Phone: 713-298-1760

From: Craig Cox <Craig.Cox@tn.gov>
Sent: Monday, March 6, 2023 8:25 AM
To: William Novak <halnovak@whnconsulting.com>
Cc: Joe Shirley <Joe.Shirley@tn.gov>; David Foster <David.Foster@tn.gov>; Cole McCormick <Cole.McCormick@tn.gov>; Patsy Fulton <Patsy.Fulton@tn.gov>
Subject: RE: Superior Expense Questions 2022

Good morning, Hal. I agree with you. This information looks only to show the worker's comp premium paid and the insurance carrier's documentation of the WC policy.

As you know, we are questioning the allocation of Premier's worker's comp and employer-paid taxes per the Premier invoices to SWS for service. In looking at the Premier invoices claimed for abnormal labor charges (to be considered for payment from escrow), I was hoping to find consistency in the relationship percentage between each of (a) worker's comp charges and (b) employer-paid taxes when taking each of these as a percentage of the underlying labor (and also labor + supervision) charges allocated to SWS. However, as you can see from the attached, the percentages charged to SWS by Premier were not consistent. This lack of consistency is a concern to us as we evaluate reasonable charges potentially eligible for funding via escrow.

I realize you understand my question. Perhaps you can communicate this better to any of John's

staff who may be helping us understand their methodology for computing the Premier charges to SWS.

Thanks again, Hal. Appreciate your help in getting a clear answer.

Craig

From: William Novak <halnovak@whnconsulting.com>
Sent: Saturday, March 4, 2023 6:49 PM
To: Craig Cox <Craig.Cox@tn.gov>
Subject: [EXTERNAL] Fw: Superior Expense Questions 2022

***** This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email - STS-Security. *****

Craig -

Attached is a copy of what I received on Workman's Compensation.

However, it doesn't look to me like there is any support here for the \$0.40/hour rate that was applied.

I've asked (again) for this support.

Anyway, see if this provides any of the information that you are looking for, and we'll discuss. Thanks.

Hal Novak, CPA

WHN CONSULTING

www.whnconsulting.com

Phone: 713-298-1760

From: premierpropertykc@gmail.com <premierpropertykc@gmail.com>
Sent: Friday, March 3, 2023 4:36 PM
To: William Novak <halnovak@whnconsulting.com>
Subject: RE: Superior Expense Questions 2022

Hi,

Attached is a spreadsheet of the time spent on the audit.

Also, notes, payment schedules and renewal declarations for the WC rate

Hope this helped with what you were needing.

Missy

From: William Novak <halnovak@whnconsulting.com>

Sent: Wednesday, March 1, 2023 9:51 AM

To: Missy Harwell <premierpropertykc@gmail.com>

Subject: Fw: Superior Expense Questions 2022

Missy -

Attached is a list of expense questions that I need to resolve in order to complete the 2022 annual report.

Can you please provide the back up documentation or purpose of each charge so I can code it to the proper expense category.

Thanks.

Hal Novak, CPA

WHN CONSULTING

www.whnconsulting.com

Phone: 713-298-1760



Williamson County, Tennessee
Community Development

1320 West Main Street - Suite 400
Franklin, Tennessee 37064
Voice: 615.790-5725 Fax: 615.591-8531

March 8, 2023

John Powell
PO BOX 180
Arrington TN 37014

Re: Bonds from January 1, 2017 to March 8, 2023

As requested, here is the information you requested for the Collection Bonds for King's Chapel.

King's Chapel
Subdivisions

Bonds in effect from January 2017 – March 2023

Section	Implemented Date	Original \$	Date Reduced	Reduce \$	Released
Section 3C	5/29/2014	\$12,500	03/12/2020	\$3,750	05/2022
Section 8	8/13/2018	\$132,500	10/13/2022	\$39,750	
Section 10	8/1/2021	\$175,000	10/13/2022	\$5,250	
Section 11	8/1/2021	\$77,500	10/13/2022	\$23,250	
Section 12	08/10/2022	\$70,000			
Section 13	02/16/2023	\$85,000			

Please let me know if you need anything further.

Regards,

Debbie Smith

Email to Hal Novak

PERFORMANCE/MAINTENANCE BOND FOR
WASTEWATER COLLECTION SYSTEM
FOR RESIDENTIAL DEVELOPMENT KNOWN AS
KING'S CHAPEL, SECTION 11

THE PERFORMANCE and MAINTENANCE BOND (the "Bond"), is hereby presented by:

KINGS CHAPEL LOAN GROUP, LLC (the "Principal") and by SUPERIOR WASTEWATER SYSTEMS, LLC (formerly KING'S CHAPEL CAPACITY, LLC) (the "Utility Company"-if different from Principal) to WILLIAMSON COUNTY, TENNESSEE ("County"), its WILLIAMSON COUNTY REGIONAL PLANNING COMMISSION ("Planning Commission") and WATER AND WASTEWATER AUTHORITY of WILLIAMSON COUNTY, TENNESSEE ("WWA"), the _____ day of _____, 20____ in the amount of Seventy-Seven Thousand Five Hundred and 00/100ths Dollars (\$77,500.00) for the construction and maintenance of a wastewater collection system, which Bond shall bind Principal, its heirs, personal representatives, executors, administrators, successors and assigns jointly and severally.

RECITALS:

WHEREAS, Principal has proposed the use of an nontraditional wastewater treatment and disposal and collection system to serve a Project known as King's Chapel and as a result of such proposal has submitted a Final Plat known and designated as King's Chapel, Section 11 (include the applicable section of the Project if said Project will be developed in increments) ("Project") which contains said proposed wastewater collection system on the 8th day of July, 2021, before the Planning Commission; and

WHEREAS, approval by the Planning Commission is a condition precedent to the right of the Principal and the Developer/Owner of the Project, if different from Principal, to obtain building permits necessary to begin construction on the Project; and

WHEREAS, the Planning Commission is unwilling to approve said Final Plat until all required improvements and facilities are constructed, installed and completed, and a bond is executed and filed with the Planning Department of County; and

WHEREAS, in accordance with Article 20 of the 2013 Zoning Ordinance, which regulates Nontraditional Wastewater Treatment and Disposal Systems and which includes Section 20.08 which specifically addresses Assurance for Completion and Operation of Improvements, including providing a surety bond payable to the

County in an amount equal to One Hundred Percent (100%) of the total cost of construction of the wastewater collection system for the applicable Section of the Project, as calculated and defined by said Section 20.08, is required prior to recording the Final Plat along with security for said bond agreement in the form of a letter of credit or cash deposit, and execution of this Bond Agreement; and

WHEREAS, the total cost of construction of the wastewater collection system, which shall be calculated in accordance with Section 20.08 and shall be sealed and certified by the Design Engineer of the system is Seventy-Seven Thousand Five Hundred and 00/100ths Dollars (\$77,500.00); and

WHEREAS, Principal desires to have such Final Plat of said Project recorded in order to commence construction of all improvements related to the Final Plat;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein the sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Principal shall construct, install and complete the aforementioned wastewater collection system, which work shall include all of said improvements, utilities and facilities above-mentioned as shown on the Final Plat, Design Development Report, and Detailed Soil Investigation Report and also as stated herein or as otherwise required by the Final Plat, Design Development Report, Detailed Soil Investigation Report and State Operating Permit required by the Tennessee Department of Environment and Conservation and, in particular, all sewer mains, collection facilities, and other necessary facilities, instrumentalities, buffer requirements, and all required appurtenances, which shall also include any auxiliary facilities proposed.

2. Principal shall do all of said work in a proper and workmanlike manner to the satisfaction of Williamson County and in accordance with all regulations and ordinances of Williamson County its Planning Commission and WWA and any other applicable laws, rules, regulations, codes, or ordinances, local, state or federal.

3. Principal and/or Utility Company shall fully maintain and keep in good working order the aforementioned wastewater collection system for so long as the property described in the Final Plat shall be used for the purposes shown on said Final Plat, as stated herein, or as otherwise required by said Final Plat.

4. This Performance Bond shall remain in effect until Twenty-Five Percent (25%) of the building permits are issued for the applicable Section of the Project or for one (1) year after issuance of the first certificate of occupancy in the applicable Section of the Project, whichever last occurs. After which, the Planning Commission may reduce the bond to a Maintenance Bond, unless the Planning Commission or the WWA requires, in accordance with the terms of this Bond and the Zoning Ordinance or Subdivision Regulations, a draft or drafts on said letter of credit or cash bond and so long as the following are submitted by Principal:

- a. Sealed letter from the Design Engineer that the collection system is installed in accordance with the Design Plans; and
- b. Letter from the Utility Provider that it has accepted the collection system and is available for operation/connection.

5. This Maintenance Bond shall be no less than Thirty Percent (30%) of the Performance Bond amount and shall be held for a minimum of two (2) years following the date on which the Planning Commission reduced the bond to a Maintenance Bond, unless the Planning Commission or the WWA requires, in accordance with the terms of this Bond and the Zoning Ordinance or Subdivision Regulations, a draft or drafts on said letter of credit or cash bond.

6. Principal shall obtain final approval and acceptance of the work as required by state statute as well as the Zoning Ordinance, Subdivision Regulations, and the regulations of the Tennessee Department of Environment and Conservation.

7. In the event the Planning Commission or WWA determines that the Principal has failed to meet the obligations required by these Bonds, the Planning Commission or WWA may require a draft or drafts on said letter of credit or cash bond for such amounts as it may determine to be proper, which sum shall be forfeited and paid to Williamson County or its Planning Commission or WWA as liquidated damages for such default. Williamson County, its Planning Commission or WWA shall then use said funds to pay for completion of the required improvements or maintenance of same, refunding any unused portion of said funds.

8. Action by Williamson County, its Planning Commission or WWA in requiring a draft or drafts on the letter of credit or cash bond pursuant to the terms of this Performance/Maintenance Agreement, the Zoning Ordinance or Subdivision Regulations shall not be deemed a release of Principal for any liability hereunder. The Principal acknowledges that it is liable for all obligations under this Performance/Maintenance Agreement.

9. Should Williamson County, its Planning Commission or WWA require the services of legal counsel to assist in presenting a draft or drafts on the letter of credit or cash bond or if it becomes necessary to enforce the provisions of this agreement in a court of law, then the Principal shall also be liable for the fees of the County's legal counsel, which may be paid from the draft or drafts on the letter of credit or cash bond and deducted before any unused funds are returned.

IN WITNESS WHEREOF the undersigned have duly executed this Agreement on the date first set forth above.

PRINCIPAL

Signed and executed this 28 day of July, 2021.

By: J. Powell (Signature)

Printed: John Powell

Title: Authorized Agent

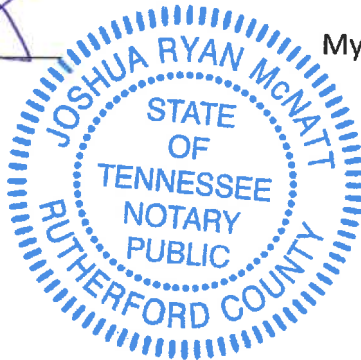
STATE OF TENNESSEE)
COUNTY OF Rutherford)

Personally appeared before me John Powell a Notary Public in and for said County and State the within named John Powell, the Principal, with whom I am personally acquainted, and who acknowledged that he executed the within instrument for the purpose therein contained.

Witness my hand and official seal on the 28 day of July, 2021.

[Signature]
Notary Public

My Commission Expires 12/22/2023



SEWER UTILITY COMPANY

I, on behalf of Superior Wastewater Systems, LLC, sign this agreement for the sole purpose of acknowledging that the system proposed for Kings Chapel, Section 11 is within the service area of Superior Wastewater Systems, LLC, and will be owned and operated by Superior Wastewater Systems, LLC upon its completion.

Signed this 28 day of July, 2021.

By: [Signature] (Signature)

Printed: John Powell
Sole Member

Title: Sole Member

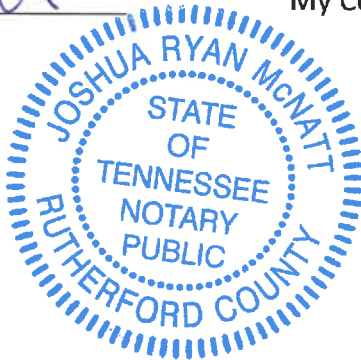
STATE OF TENNESSEE)
COUNTY OF Rutherford)

Personally appeared before me John Powell a Notary Public in and for said County and State the within named John Powell, with whom I am personally acquainted, and who acknowledged that he executed the within instrument for the purpose therein contained.

Witness my hand and official seal on the 28 day of July, 2021.

[Signature]
Notary Public

My Commission Expires 12/22/2023



WILLIAMSON COUNTY, TENNESSEE

Approved as to form: this 28th day of July, 2021.

By: [Signature] (Signature)

Printed: Kristi D. Ransom

Title: County Attorney for Planning and Environment

Received by Williamson County, Tennessee:

Date: 7/28/21

By: [Signature] (Signature)

Printed: Debbre Smith

From: [William Novak](#)
To: [Joe Shirley](#)
Cc: [Craig Cox](#); [Cole McCormick](#); [David Foster](#); [John Powell](#)
Subject: [EXTERNAL] Williamson County Bond Letter to March 2023 for SWS
Date: Thursday, March 9, 2023 9:19:50 AM
Attachments: [Williamson County Bond Letter to March 2023.doc](#)

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Joe -

Attached is a copy of the letter from Williamson County showing the bonds that were in effect from our previous bond letter through February 2023 for Superior Wastewater Systems.

We are gathering the copies of the actual bonds and should have those for you shortly.

Hal Novak, CPA
WHN CONSULTING
www.whnconsulting.com

Phone: 713-298-1760

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

March 6, 2023

Mr. Joe Shirley, Director
Utilities Division, Audit & Compliance
Tennessee Public Utility Commission
502 Deaderick Street
Nashville, Tennessee 37243

RE: STAFF COMPLIANCE AUDIT OF SUPERIOR WASTEWATER SYSTEMS, LLC'S COMPLIANCE WITH COMMISSION RULES 1220-04-13-.07 AND 1220-04-13-.08 REGARDING FINANCIAL SECURITY AND RULE 1220-04-13-.16 REGARDING AFFILIATE TRANSACTIONS (DOCKET 21-00086)

Dear Mr. Shirley:

Thank you for meeting with John Powell, Jay Russ and myself on February 28, 2023, regarding the Commission Staff's progress on this audit. At the end of the meeting, you requested that I provide a copy of my comments made during the meeting in writing for further consideration. These comments included the escrow liability adjustment, the lack of approval for previous withdrawals from escrow, and whether or not it is appropriate to continue escrow. Please consider this letter as the fulfillment of your request.

1. Escrow Liability Adjustment

As you know, Superior Wastewater System (SWS) first began billing customers for wastewater service in 2005. Then, beginning in 2006, SWS began separately recording its escrow assets and liabilities in our reports to the Commission. However, almost from the start of providing service, SWS has been in a consistent loss position. At first, this loss was caused by SWS providing wastewater service to only a handful of customers. However, in later years, the losses were caused by the tariff rates charged to customers being inadequate to cover the cost of providing wastewater service. A comparison of the escrow assets and liabilities along with the annual income/loss since 2019 is shown below.

SUPERIOR WASTEWATER SYSTEMS				
Analysis of Escrow & Income				
Year	Escrow Liabilities	Escrow Assets	Net Escrow Assets/(Shortfall)	Net Income/(Loss)
2019	\$99,836	\$9,126	\$-90,710	\$8,458
2020	108,334	5,551	-102,783	-2,807
2021	160,320	1,851	-158,470	-31,310
2022	211,840	1,851	-209,990	-45,695
			Total	\$-71,354

As you can see from the table above, SWS has consistently been in a negative position for Net Escrow as well as net income for this time period. I believe that this distinction is vitally important to your audit since escrow funding comes from cash earnings. Because SWS has been in a consistent loss position after paying all bills, there have been no excess earnings left to transfer to escrow funding.

Therefore, at a minimum, I believe that your audit needs to consider the \$-71,354 in Net Losses over this four-year period as an offsetting adjustment to the escrow liability.

However, only recognizing these prior net losses would still leave SWS in a position where it could not have provided any funding to offset the escrow liability. Therefore, I believe that your audit also needs to adjust for the pro forma earnings requirement of \$148,577 that would have been necessary for SWS to fund escrow over this same period as shown below.

SUPERIOR WASTEWATER SYSTEMS Pro Forma Income Adjustment Calculation			
Year	Bills Rendered	Escrow Rate	Pro Forma Income Adjustment
2019	3,239	\$10.13	\$32,811
2020	3,513	10.13	35,587
2021	3,846	10.13	38,960
2022	4,069	10.13	41,219
		Total	\$148,577

Therefore, SWS needs a total offsetting adjustment of \$219,931 to its existing escrow liability as shown below. This adjustment is necessary in order to properly consider the loss position that SWS was in from 2019 to 2022 before any funding to escrow could have taken place.

SUPERIOR WASTEWATER SYSTEMS Proposed Adjustment to Net Escrow Assets	
Item	Adjustment
Loss Adjustment	\$71,354
Pro Forma Income Adjustment	148,577
Total Adjustment to Net Escrow Assets	\$219,931

In sum, the \$219,931 total adjustment to escrow exceeds the Net Escrow Liability of \$-209,990. Therefore, the existing net escrow liability should be reset to \$0 at December 31, 2022 through a debit to retained earnings.

Although I've never realized it before now, a flaw exists in the provision of escrow for wastewater utilities regulated by the Commission. Specifically, the provision for escrow assumes that a utility has cash earnings sufficient to provide for escrow deposits. However, when a utility experiences losses as we have here, all revenues – including escrow receipts – are needed to first pay for the utility operating expenses. Otherwise, the utility will no longer be able to provide wastewater service.

Finally, the utility customers of SWS have long reaped the benefit through lower rates that would have otherwise been required to erase these operating losses and provide a sufficient reserve to fund escrow. Therefore, it would be unreasonable to now penalize SWS for this escrow shortfall.

2. Lack of Approval for Previous Escrow Withdrawals

Effective January 1, 2019, the Commission changed its rules for withdrawals from Escrow. Previously, wastewater utilities were free to withdraw funds from escrow when needed for non-routine maintenance. Under the new rules, utilities were required to first obtain Commission approval for escrow withdrawals.

Although the new rules took effect on January 1, 2019, SWS continued to utilize escrow funds for non-routine maintenance without approval of the Commission. In addition, the Consumer Advocate mentioned this unauthorized withdrawal of escrow funds as a reason for intervention in SWS's rate case in Docket No. 22-00087.

Other wastewater utilities have also used escrow funds without Commission approval since January 1, 2019 and have resolved this error through nunc pro tunc motions to correct the untimely withdrawal. In the case of SWS, no findings have been made that escrow funds were ever applied for non-utility purposes. Therefore, a similar nunc pro tunc motion may be in order here. In the alternative, your audit could singularly find that the withdrawals of escrow funds were utilized appropriately even though Commission authority had not been requested or granted. If escrow is continued (see below) then SWS agrees going forward that it will not withdraw any funds from the escrow bank accounts until first receiving authorization to do so.

3. Should Escrow be Applied for SWS Going Forward

In Docket No. 22-00087, the Commission authorized new base rates for SWS. These new base rates completely cover the cost of providing utility service for SWS. Further, SWS intends to soon make an alternative regulation filing that would allow it to annually adjust these base rates for some measure of inflation. Therefore, a question now exists as to whether escrow should be continued for SWS.

It is certainly desirable to have funds set aside to cover an unexpected material expenditure. However, SWS already posts financial security with the Commission for this purpose. In addition, SWS is currently constructing a new wastewater treatment facility that we believe will offset many of the pump replacement expenditures that previous required escrow funding. Finally, as mentioned previously, a flaw exists in the Commission's provision for escrow since it assumes that a utility has cash earnings sufficient to provide for base operations and escrow deposits. Until this flaw is corrected, we don't believe that it is to SWS's advantage to continue with escrow charges. In addition, eliminating escrow would allow SWS to reduce its rates by the \$10.13 monthly escrow charge.

However, if the Staff and the Commission decide to continue with escrow charges, then SWS believes that there should be a cap on the total amount of funded escrow. The current escrow rate of \$10.13 per customer per month, provides for annual escrow funding of approximately \$40,000 per year. SWS believes that a total escrow cap of \$100,000 would be sufficient and that escrow charges should be suspended when this cap is reached.

Thank you for the opportunity to make this presentation. If you have any questions, please let me know.

Sincerely,



William H. Novak, CPA

From: [Joe Shirley](#)
To: [David Foster](#); [Cole McCormick](#); [Craig Cox](#); [Patsy Fulton](#)
Subject: FW: Evaluation of SWS Escrow and Income
Date: Wednesday, March 29, 2023 10:52:24 AM
Attachments: [WHN Write of Escrow and Income.pdf](#)

Please see attached regarding Superior bonding analysis. We will discuss this during our next internal meeting regarding this docket. Thanks, Joe

From: William Novak <halnovak@whnconsulting.com>
Sent: Monday, March 6, 2023 9:24 AM
To: Joe Shirley <Joe.Shirley@tn.gov>; David Foster <David.Foster@tn.gov>
Cc: John Powell <john-powell@comcast.net>
Subject: [EXTERNAL] Evaluation of SWS Escrow and Income

***** This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email - STS-Security. *****

Joe -

At the end of last week's meeting on the escrow audit for SWS, you asked me to provide a summary of my comments in writing for consideration.

Attached is a letter containing my thoughts and comments.

If you have any questions, let me know.

Hal Novak, CPA

WHN CONSULTING

www.whnconsulting.com

Phone: 713-298-1760

SUPERIOR WASTEWATER SYSTEMS

Providing Superior Wastewater Service to Tennessee

April 5, 2023

Via Electronic Delivery

Mr. Joe Shirley, Director
Utilities Division, Audit & Compliance
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Electronically Filed in TPUC Docket
Room on May 17, 2023 at 1:16 p.m.

**Re: STAFF COMPLIANCE AUDIT OF SUPERIOR WASTEWATER
SYSTEMS, LLC'S COMPLIANCE WITH COMMISSION RULES 1220-04-
13-.07 AND 1220-04-13-.08 REGARDING FINANCIAL SECURITY AND
RULE 1220-04-13-.16 REGARDING AFFILIATE TRANSACTIONS
(DOCKET NO. 21-00086)**

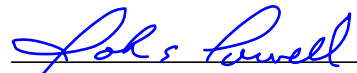
Response to TPUC Staff's Third Discovery Request of March 20, 2023

Mr. Shirley:

Superior Wastewater Systems, LLC files the attached response to the Commission
Party Staff's Discovery Request of March 20, 2023.

Please contact me if you have any questions or need additional information.

Respectfully submitted,


John Powell, President

Enclosures

**SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023**

Question:

1. Provide copies of the original Letters of Credit issued for Sections 5, 6, 7, 8, 10, and 12.

Response:

SWS does not have these records in its possession. SWS has inquired with our bank about receiving these original Letters of Credit for prior periods, and was informed that they were not readily available and that retrieving them would require SWS to pay for research fees.

On a March 29, 2023, conference call, SWS informed the Party Staff on the status for this item. Party Staff agreed that there was no need to pursue this item further since the records were not readily available and retrieving them would cause SWS to incur additional costs.

**SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023**

Question:

2. Provide copies of the executed bond forms that have been issued for Sections 5, 6, 7, 8, 10, 11, and 12.

Response:

SWS does not have these records in its possession. Retrieving these records would require the Williamson County clerks to research their files.

On a March 29, 2023, conference call, SWS informed the Party Staff on the status for this item. Party Staff agreed that there was no need to pursue this item further since the records were not readily available and retrieving them would be outside the control of SWS.

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023

Question:

3. The bond information provided in Ms. Smith's letter for Section 10, lists that bond amount for \$175,000. However, this is in contrast with other documentation from the Williamson County Planning Commission's meeting minutes (attached above) that suggests the Section 10 bond amount is only \$17,500. The bonds are normally reduced by 30% when they enter the maintenance phase. So $(30\% * \$175,000) = \$52,500$. However, in this case, Ms. Smith lists the reduced amount as \$5,250, which would be $(30\% * \$17,500) = \$5,250$. (Staff believes Ms. Smith made a typo when she placed the comma [,]). Staff seeks to obtain a copy of the original letter of credit and bond form on Section 10, and also seek to clarify the proper amount the Company should claim for determining bonding costs for Section 10 (\$175,000 or \$17,500).

Response:

Yes, the appropriate bond amount for Section 10 is \$17,500. Please see Attachment TPUC3-3a for an updated letter from Williamson County that reflects the correct \$17,500 bond for Section 10.

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC COMPLIANCE AUDIT
THIRD DISCOVERY REQUEST OF THE PARTY STAFF

ATTACHMENT TPUC3-3A
WILLIAMSON COUNTY CONFIRMATION LETTER
OF SWS OUTSTANDING BONDS



Rogers C. Anderson
Williamson County Mayor

Planning Department
Michael Matteson, Director

WILLIAMSON COUNTY GOVERNMENT

April 4, 2023

Ashby Communities LLC
John Powell
PO BOX 180
Arrington TN 37014

Re: Letter of Credit for King's Chapel, Section 10 WW Collection System

John;

Per our phone conversation regarding Section 10 amount, I found I made a typo and the correct amount is \$17,500. I apologize for any inconvenience this may have caused.

If you need anything else, please let me know.

Regards

A handwritten signature in blue ink that reads "Debbie Smith". The signature is written in a cursive, flowing style.

Debbie Smith
Admin. Office Manager





Williamson County, Tennessee
Community Development

1320 West Main Street - Suite 400
Franklin, Tennessee 37064
Voice: 615.790-5725 Fax: 615.591-8531

March 8, 2023

John Powell
PO BOX 180
Arrington TN 37014

Re: Bonds from January 1, 2017 to March 8, 2023

As requested, here is the information you requested for the Collection Bonds for King's Chapel.

**King's Chapel
Subdivisions**

Bonds in effect from January 2017 – March 2023

Section	Implemented Date	Original \$	Date Reduced	Reduce \$	Released
Section 3C	5/29/2014	\$12,500	03/12/2020	\$3,750	05/2022
Section 8	8/13/2018	\$132,500	10/13/2022	\$39,750	
Section 10	8/1/2021	\$175,000	10/13/2022	\$5,250	
Section 11	8/1/2021	\$77,500	10/13/2022	\$23,250	
Section 12	08/10/2022	\$70,000			
Section 13	02/16/2023	\$85,000			

Please let me know if you need anything further.

Regards,

Debbie Smith

Email to Hal Novak

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023

Question:

4. Another bonding issue Staff seeks to clarify is why Section 8 took significantly longer to move into the maintenance phase than the majority of other bonds. In particular, what caused the delay in submitting the required certification letters. The Planning Commission states in its minutes that the Company was unable to produce the requisite certification letters for more than a twelve-month period.

Response:

Milcrofton Utility District would not approve water service to the higher lots in Section 8. As a result, the wastewater collection lines were not completed until a much later date. In addition, we employed a new crew to build the wastewater collection lines in Section 8, which also resulted in relatively longer completion times.

All of these actions contributed to Section 8 taking a relatively longer time to complete than we had previously experienced. These delays also required the existing bonds to be kept in place to insure for any necessary corrections.

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023

Question:

5. The Company is entitled to claim reasonable costs it incurred for TPUC Bond 9, re-issued with Smith & Manus, last March, 2022, and would have expired this March 2023. We plan to allocate 9 months of the bond cost in the true-up through December 2022. There was a differential Letter of Credit that the Company obtained from Reliant Bank for its TPUC bond requirement. Does the Company have an updated LOC with Reliant from 9/24/2022 through 9/24/2023 which could be used to allocate additional bond costs through December 31, 2022? If so, please provide documentation of the updated Reliant Bank LOC related to the bond true-up period through 2022.

Response:

Please see Attachment TPUC3-5a which contains the original Letter of Credit referred to in the Party Staff's Request. Specifically, refer to the final paragraph of this letter which reads as follows:

This letter of Credit shall be automatically renewed without amendment unless at least ninety (90) days prior to any expiration date we notify Beneficiary by receipted overnight courier, receipt certified mail, or any receipted means that we elect not to renew this Letter of Credit. This Letter of Credit expires no later than September 24, 2022.

In summary, this Letter of Credit remains in force unless or until it is affirmed to be released by the Tennessee Public Utility Commission (the Beneficiary). As a result, there is no update to this Letter of Credit.

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC COMPLIANCE AUDIT
THIRD DISCOVERY REQUEST OF THE PARTY STAFF

ATTACHMENT TPUC3-5A
INCREMENTAL LETTER OF CREDIT FROM RELIANT BANK

IRREVOCABLE LETTER OF CREDIT

September 24, 2021

Beneficiary:

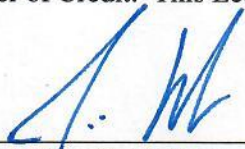
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Irrevocable Letter of Credit #9097726, Superior Wastewater Systems, LLC

Reliant Bank ("Issuer") hereby issues this irrevocable letter of credit in favor of Superior Wastewater Systems, LLC for the benefit of the TN Public Utility Commission, hereinafter referred to as "Beneficiary" in the following manner and on the following terms.

1. Superior Wastewater Systems, LLC TPUC Identification Number: 128917
2. The extent of this Letter of Credit is \$16,857.00
3. This Letter of Credit is required by Tennessee Code Annotated §65-4-201 and TPUC Rule 1220-4-13-.09 and maybe be drawn up to its maximum amount.
4. Upon request of a draw, Issuer will promptly pay the Beneficiary via wire transfer upon notice that the TPUC has taken action pursuant to TPUC Rule 1220-4-13-.09.
5. Draws in part or in full will be accompanied by the following document: A certificate of default signed under oath by an official of the Tennessee Public Utility Commission certifying that the Superior Wastewater Systems, LLC has not complied with the ordinances and/or regulations of the Beneficiary and the terms of the agreement between the Beneficiary and Superior Wastewater Systems, LLC and the amount of approximate damage to the local government, which amount shall be identical to the face amount of the accompanying draft.

This Letter of Credit shall be automatically renewed without amendment unless at least ninety (90) days prior to any expiration date we notify Beneficiary by receipted overnight courier, receipted certified mail, or any receipted means that we elect not to renew this Letter of Credit. This Letter of Credit expires no later than September 24, 2022.



Jonathan Whitehurst
VP Commercial Banking

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023

Question:

6. Does the Company have any additional support for the “un-included” offsets that Staff presented to the Company in our last meeting (Debit List, Offsets, attached above)? Additional documentation for these items could support offsets to reduce the escrow liability established in the Staff’s escrow revenue analysis of Jan 2019 – Dec. 2022. The Excel sheets are attached again to this email.

Response:

A copy of the TPUC Party Staff’s calculation unsupported escrow offset claims totaling \$40,098 is included in this response as Attachment TPUC3-6a.

It is the position of SWS that the Company’s Net Operating Losses need to be considered as a component of the escrow balance. Please see SWS’s response to TPUC3-7 for a copy of our letter of March 6, 2023, specifically describing how and why these net operating losses should be considered. When net operating losses are fully considered as a component of the escrow balance, the unfunded escrow balance is reduced to zero (\$0). As a result, there would be no need to consider the unsupported escrow offset claims shown on TPUC3-6a. However, SWS is continuing to search for additional support for all “un-included” offsets and will provide these to the Commission Party Staff on a piecemeal basis outside of this discovery request.

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC COMPLIANCE AUDIT
THIRD DISCOVERY REQUEST OF THE PARTY STAFF

ATTACHMENT TPUC3-6A
UNSUPPORTED ESCROW OFFSET CLAIMS

Need copies of the invoices

INVOICE #	DATE	COMPANY	AMOUNT	Check #/Debit	DESCRIPTION	Notes
43881	02/20/2020	Rock City Machine	\$228.88	165	Materials & Supplies	Materials & Supplies
43944	04/23/2020	Superior	\$268.48	1011	Order 10004970	Order 10004970
43955	05/04/2020	Rock City Machine	\$609.62	Debit	Pumps - POS Debit	Pumps - POS Debit
43980	05/29/2020	Superior	\$3,251.35	1012	Abnormal and extraordinary expense	Abnormal and extraordinary expense
44022	07/10/2020	Superior	\$2,666.89	1013	Abnormal and extraordinary expenses	Abnormal and extraordinary expenses
44048	08/05/2020	Rock City Machine	\$1,502.19	209		35558 35558
44090	09/16/2020	Rock City	\$1,905.86	227	35797, 35962	35797, 35962
44126	10/22/2020	Rock City	\$1,905.46	1015	Abnormal and extraordinary expense - Rock City	Abnormal and extraordinary expense - Rock City
44260	03/05/2021	James Esmond	\$1,025.00	264	Pump repair	Pump repair
44314	04/28/2021	Rock City	\$2,471.24	1022	Inv 37749	Inv 37749
44361	06/14/2021	Amazon	\$62.98	Debit	Materials & Supplies	Materials & Supplies
44468	09/29/2021	Northern Equipment	\$334.34	Debit	Materials & Supplies	Materials & Supplies
44523	11/23/2021	Lowe's	\$150.49	Debit	Heater	Heater
<u>SUBTOTAL</u>			<u>\$16,382.78</u>			

Hard to read, not readable

INVOICE #	DATE	COMPANY	AMOUNT	Check #/Debit	DESCRIPTION	Notes
12	02/03/2021	City Electric Supply	\$100.62	Debit	Cannot Read Invoice	Visibility of receipt is poor
10011837	02/24/2021	CED	\$120.10	Debit	Unkown	Visibility of receipt is poor
311	07/02/2021	Javonti Perkins	\$36.00	311	Sewer Plant Repair/Maintenance (Unspecified)	Unspecified
310	07/17/2021	Tinglo Soxayaseng	\$80.00	310	Sewer Plant Repair/Maintenance (Unspecified)	Unspecified
33947	09/23/2021	Home Depot	\$41.11	Debit	General Materials	Nitrile gloves
N/A	02/25/2022	Tractor Supply	\$39.49	Debit	Cannot Read Invoice	Visibility of receipt is poor
35643	03/23/2022	Tractor Supply	\$52.67	Debit	Unkown	Unkown, says MAG. Ammo?
12417	03/25/2022	Tractor Supply	\$42.77	Debit	General Materials	Roundup, pesticide
74352	05/26/2022	Home Depot	\$53.70	Debit	General Materials	Nitrile gloves
N/A	06/14/2022	Amazon	\$62.98	Debit	General Materials	Shutter exhaust fan
N/A	08/27/2022	Tractor Supply	\$49.38	Debit	Cannot Read Invoice	Visibility of receipt is poor
438	10/13/2022	Tinglo Soxayaseng	\$104.62	438	Sewer Plant Repair/Maintenance (Unspecified)	Unspecified
N/A	10/10/2020	Lowe's	\$54.85	Debit	Cannot Read Invoice	Visibility of receipt is poor
3386201	12/02/2022	Ferguson	\$163.88	Debit	Cannot Read Invoice	Visibility of receipt is poor
<u>SUBTOTAL</u>			<u>\$1,002.17</u>			

Unspecified Descriptions

INVOICE #	DATE	COMPANY	AMOUNT	Check #/Debit	Bill Components	Notes
3221	01/08/2021	Premier Property Management	\$1,437.93	N/A	Labor + Health Insurance	Unspecified
3228	01/21/2021	Premier Property Management	\$1,106.72	N/A	Labor + Health Insurance	Unspecified
3237	02/05/2021	Premier Property Management	\$1,081.60	N/A	Labor + Health Insurance	Unspecified
3246	02/19/2021	Premier Property Management	\$977.99	N/A	Labor + Health Insurance	Unspecified
3263	03/19/2021	Premier Property Management	\$781.86	N/A	Labor + Health Insurance	Unspecified
3273	04/15/2021	Premier Property Management	\$1,204.51	N/A	Labor + Health Insurance	Unspecified
3279	04/29/2021	Premier Property Management	\$353.26	N/A	Labor + Health Insurance	Unspecified
3286	05/13/2021	Premier Property Management	\$852.77	N/A	Labor + Health Insurance	Unspecified

3292	05/27/2021	Premier Property Management	\$784.93	N/A	Labor + Health Insurance	Unspecified
3297	06/10/2021	Premier Property Management	\$613.38	N/A	Labor + Health Insurance	Unspecified
3321	06/24/2021	Premier Property Management	\$394.03	N/A	Labor + Health Insurance	Unspecified
3323	07/08/2021	Premier Property Management	\$795.13	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3329	07/21/2021	Premier Property Management	\$477.74	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3339	08/04/2021	Premier Property Management	\$193.13	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3343	08/17/2021	Premier Property Management	\$265.12	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3356	09/01/2021	Premier Property Management	\$235.10	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3371	09/15/2021	Premier Property Management	\$750.50	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3377	09/29/2021	Premier Property Management	\$932.21	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3383	10/13/2021	Premier Property Management	\$1,230.56	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3389	10/26/2021	Premier Property Management	\$778.71	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3396	11/09/2021	Premier Property Management	\$1,322.53	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3402	11/22/2021	Premier Property Management	\$1,521.00	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3419	12/09/2021	Premier Property Management	\$191.44	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3426	12/21/2021	Premier Property Management	\$1,373.76	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3440	01/05/2022	Premier Property Management	\$670.32	N/A	Labor + Health Insurance + Payroll expense	Unspecified
3563	06/22/2022	Premier Property Management	\$228.71	N/A	Labor + Health Insurance + Payroll expense	Unspecified
1971	03/20/2020	Premier Property Management	\$447.46	N/A	Subcontract labor	Unspecified
3007	05/01/2020	Premier Property Management	\$1,710.58	N/A	Pump (Pump Components/Repair)	Re-routed line for 2 homes for the main line. Searched for leaks, installed secondary pump. A labor amount of 2,143.05 was omitted for the actual CAPEX issues.

SUBTOTAL \$22,712.98

Grand Total \$40,097.93

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023

Question:

7. Has the Company performed any analysis regarding the “net operating loss” offset the Company proposed in the last meeting with the Staff. If so, please provide documentation/calculations of any additional offsets in this regard that the Company proposes for Staff’s consideration.

Response:

Please see Attachment TPUC3-7a for a copy of the letter addressing this that was electronically sent to TPUC Party Staff on March 6, 2023.

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC COMPLIANCE AUDIT
THIRD DISCOVERY REQUEST OF THE PARTY STAFF

ATTACHMENT TPUC3-7A
PROPOSED PROVISION FOR NET OPERATING LOSSES

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

March 6, 2023

Mr. Joe Shirley, Director
Utilities Division, Audit & Compliance
Tennessee Public Utility Commission
502 Deaderick Street
Nashville, Tennessee 37243

RE: STAFF COMPLIANCE AUDIT OF SUPERIOR WASTEWATER SYSTEMS, LLC'S COMPLIANCE WITH COMMISSION RULES 1220-04-13-.07 AND 1220-04-13-.08 REGARDING FINANCIAL SECURITY AND RULE 1220-04-13-.16 REGARDING AFFILIATE TRANSACTIONS (DOCKET 21-00086)

Dear Mr. Shirley:

Thank you for meeting with John Powell, Jay Russ and myself on February 28, 2023, regarding the Commission Staff's progress on this audit. At the end of the meeting, you requested that I provide a copy of my comments made during the meeting in writing for further consideration. These comments included the escrow liability adjustment, the lack of approval for previous withdrawals from escrow, and whether or not it is appropriate to continue escrow. Please consider this letter as the fulfillment of your request.

1. Escrow Liability Adjustment

As you know, Superior Wastewater System (SWS) first began billing customers for wastewater service in 2005. Then, beginning in 2006, SWS began separately recording its escrow assets and liabilities in our reports to the Commission. However, almost from the start of providing service, SWS has been in a consistent loss position. At first, this loss was caused by SWS providing wastewater service to only a handful of customers. However, in later years, the losses were caused by the tariff rates charged to customers being inadequate to cover the cost of providing wastewater service. A comparison of the escrow assets and liabilities along with the annual income/loss since 2019 is shown below.

SUPERIOR WASTEWATER SYSTEMS				
Analysis of Escrow & Income				
Year	Escrow Liabilities	Escrow Assets	Net Escrow Assets/(Shortfall)	Net Income/(Loss)
2019	\$99,836	\$9,126	\$-90,710	\$8,458
2020	108,334	5,551	-102,783	-2,807
2021	160,320	1,851	-158,470	-31,310
2022	211,840	1,851	-209,990	-45,695
			Total	\$-71,354

As you can see from the table above, SWS has consistently been in a negative position for Net Escrow as well as net income for this time period. I believe that this distinction is vitally important to your audit since escrow funding comes from cash earnings. Because SWS has been in a consistent loss position after paying all bills, there have been no excess earnings left to transfer to escrow funding.

Therefore, at a minimum, I believe that your audit needs to consider the \$-71,354 in Net Losses over this four-year period as an offsetting adjustment to the escrow liability.

However, only recognizing these prior net losses would still leave SWS in a position where it could not have provided any funding to offset the escrow liability. Therefore, I believe that your audit also needs to adjust for the pro forma earnings requirement of \$148,577 that would have been necessary for SWS to fund escrow over this same period as shown below.

SUPERIOR WASTEWATER SYSTEMS Pro Forma Income Adjustment Calculation			
Year	Bills Rendered	Escrow Rate	Pro Forma Income Adjustment
2019	3,239	\$10.13	\$32,811
2020	3,513	10.13	35,587
2021	3,846	10.13	38,960
2022	4,069	10.13	41,219
		Total	\$148,577

Therefore, SWS needs a total offsetting adjustment of \$219,931 to its existing escrow liability as shown below. This adjustment is necessary in order to properly consider the loss position that SWS was in from 2019 to 2022 before any funding to escrow could have taken place.

SUPERIOR WASTEWATER SYSTEMS Proposed Adjustment to Net Escrow Assets	
Item	Adjustment
Loss Adjustment	\$71,354
Pro Forma Income Adjustment	148,577
Total Adjustment to Net Escrow Assets	\$219,931

In sum, the \$219,931 total adjustment to escrow exceeds the Net Escrow Liability of \$-209,990. Therefore, the existing net escrow liability should be reset to \$0 at December 31, 2022 through a debit to retained earnings.

Although I've never realized it before now, a flaw exists in the provision of escrow for wastewater utilities regulated by the Commission. Specifically, the provision for escrow assumes that a utility has cash earnings sufficient to provide for escrow deposits. However, when a utility experiences losses as we have here, all revenues – including escrow receipts – are needed to first pay for the utility operating expenses. Otherwise, the utility will no longer be able to provide wastewater service.

Finally, the utility customers of SWS have long reaped the benefit through lower rates that would have otherwise been required to erase these operating losses and provide a sufficient reserve to fund escrow. Therefore, it would be unreasonable to now penalize SWS for this escrow shortfall.

2. Lack of Approval for Previous Escrow Withdrawals

Effective January 1, 2019, the Commission changed its rules for withdrawals from Escrow. Previously, wastewater utilities were free to withdraw funds from escrow when needed for non-routine maintenance. Under the new rules, utilities were required to first obtain Commission approval for escrow withdrawals.

Although the new rules took effect on January 1, 2019, SWS continued to utilize escrow funds for non-routine maintenance without approval of the Commission. In addition, the Consumer Advocate mentioned this unauthorized withdrawal of escrow funds as a reason for intervention in SWS's rate case in Docket No. 22-00087.

Other wastewater utilities have also used escrow funds without Commission approval since January 1, 2019 and have resolved this error through nunc pro tunc motions to correct the untimely withdrawal. In the case of SWS, no findings have been made that escrow funds were ever applied for non-utility purposes. Therefore, a similar nunc pro tunc motion may be in order here. In the alternative, your audit could singularly find that the withdrawals of escrow funds were utilized appropriately even though Commission authority had not been requested or granted. If escrow is continued (see below) then SWS agrees going forward that it will not withdraw any funds from the escrow bank accounts until first receiving authorization to do so.

3. Should Escrow be Applied for SWS Going Forward

In Docket No. 22-00087, the Commission authorized new base rates for SWS. These new base rates completely cover the cost of providing utility service for SWS. Further, SWS intends to soon make an alternative regulation filing that would allow it to annually adjust these base rates for some measure of inflation. Therefore, a question now exists as to whether escrow should be continued for SWS.

It is certainly desirable to have funds set aside to cover an unexpected material expenditure. However, SWS already posts financial security with the Commission for this purpose. In addition, SWS is currently constructing a new wastewater treatment facility that we believe will offset many of the pump replacement expenditures that previous required escrow funding. Finally, as mentioned previously, a flaw exists in the Commission's provision for escrow since it assumes that a utility has cash earnings sufficient to provide for base operations and escrow deposits. Until this flaw is corrected, we don't believe that it is to SWS's advantage to continue with escrow charges. In addition, eliminating escrow would allow SWS to reduce its rates by the \$10.13 monthly escrow charge.

However, if the Staff and the Commission decide to continue with escrow charges, then SWS believes that there should be a cap on the total amount of funded escrow. The current escrow rate of \$10.13 per customer per month, provides for annual escrow funding of approximately \$40,000 per year. SWS believes that a total escrow cap of \$100,000 would be sufficient and that escrow charges should be suspended when this cap is reached.

Thank you for the opportunity to make this presentation. If you have any questions, please let me know.

Sincerely,



William H. Novak, CPA

SUPERIOR WASTEWATER SYSTEMS, LLC
DOCKET NO. 21-00086 – TPUC STAFF COMPLIANCE AUDIT
TPUC PARTY STAFF THIRD DISCOVERY REQUEST OF MARCH 20, 2023

Question:

8. Has the Company obtained any additional support or explanations for the lack of uniformity in allocation rates for both worker's comp and employer-paid taxes which Staff observed in its review of Premier's labor-related invoices? If so, please provide.

Response:

Yes. Please see Attachment TPUC3-8a, Page 1 for a copy of the December 2022 invoice from Premier Property Management Services, LLC broken down as follows:

Item	Amount
Office & Accounting	\$941.00
Labor	283.70
Payroll Expense	94.46
Worker's Compensation	11.60
Total	\$1,330.76

In addition, please see TPUC3-8a, Page 2 (Confidential) for the individual time sheet rates and charges that support the amounts in the Table above.

As can be seen from these two supporting documents, the lack of uniformity in the overall monthly worker's comp and employer taxes paid is due to a different mix each month for each particular employee charging time to the utility. For example, an employee charging an hourly rate of \$50.00 and working 50 hours one month for the utility and 0 hours the following month, will cause a change in the weighted average worker's compensation rate each month. As a result, the mix in the hourly time charged by different employees to the utility will never allow for an observable uniformity in worker's compensation rate or employer paid taxes.

Premier Property Management Services, LLC

P.O. Box 190
Arrington TN 37014

PremierPropertyKC@gmail.com

Invoice

Date	Invoice #
12/20/2022	3781

Bill To
Superior Wastewater Systems P.O. Box 40 Arrington, TN 37014

PAID
12/21/2022

Item	Description	Qty/Hrs	Rate	Amount
Accounting Fees, ...	Office & Accounting		941.00	941.00
Labor	Labor - Replace & Rewire Pump 2 Pump Station		283.70	283.70
Payroll Employer ...	Payroll Expense 12/5/22-12/18/22		94.46	94.46
Insurance	WC Insurance Reimbursement	29	0.40	11.60

12/5/22-12/18/22

SWS

CONFIDENTIAL

LABOR

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From: [William Novak](#)
To: [Cole McCormick](#)
Cc: [David Foster](#); [Joe Shirley](#); [Craig Cox](#); [John Powell](#)
Subject: [EXTERNAL] Superior Wastewater Systems Response to TPUC Party Staff Request of March 20th
Date: Wednesday, April 5, 2023 10:33:42 AM
Attachments: [SWS Response to TPUC Party Staff Informal Discovery of March 20^LJ 2023.pdf](#)

***** This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email - STS-Security. *****

Cole -

Attached are the responses to your request from March 20th.

Please note in the response to Item 6 regarding additional support for "un-included" offsets that SWS will be providing these piecemeal to you as we find them.

Please also note in the response to Item 8 regarding uniformity in monthly Worker's Compensation charges, that Page 2 of the attachment is confidential.

If you have any questions, please let me know.

Hal Novak, CPA
WHN CONSULTING
www.whnconsulting.com

Phone: 713-298-1760

From: [William Novak](#)
To: [Cole McCormick](#)
Cc: [Joe Shirley](#)
Subject: [EXTERNAL] Fw: 21-00086 TPUC Bond 9 Smith & Manus premium
Date: Thursday, April 20, 2023 2:19:16 PM
Attachments: [Renewal 2022-2023.pdf](#)
[Renewal 2023-2024.pdf](#)

*** This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email - STS-Security. ***

Cole -

See attached and let me know if this is what you're looking for.

Hal Novak, CPA
WHN CONSULTING
www.whnconsulting.com

Phone: 713-298-1760

From: premierpropertykc@gmail.com <premierpropertykc@gmail.com>
Sent: Thursday, April 20, 2023 1:52 PM
To: William Novak <halnovak@whnconsulting.com>
Subject: RE: 21-00086 TPUC Bond 9 Smith & Manus premium

From: William Novak <halnovak@whnconsulting.com>
Sent: Thursday, April 20, 2023 1:33 PM
To: Missy Harwell <premierpropertykc@gmail.com>
Cc: John Powell <john-powell@comcast.net>
Subject: Fw: 21-00086 TPUC Bond 9 Smith & Manus premium

Missy -

See below from the TPUC Staff regarding the Smith & Manus bond.

Can you send me a copy of the invoice for 3-14-22 through 3-14-23.

Thanks.

Hal Novak, CPA
WHN CONSULTING

www.whnconsulting.com

Phone: 713-298-1760

From: Cole McCormick <Cole.McCormick@tn.gov>

Sent: Thursday, April 20, 2023 1:12 PM

To: William Novak <halnovak@whnconsulting.com>

Cc: Joe Shirley <Joe.Shirley@tn.gov>

Subject: 21-00086 TPUC Bond 9 Smith & Manus premium

Hello Hal,

Staff is updating its workpapers based on the responses you gave on April 5, 2023.

We meant to get a copy of the invoice where Superior pays the \$1,170 premium on the Smith & Manus TPUC bond. It would be the invoice effective 3/14/2022 through 3/14/2023. We need a copy of the invoice to give the utility credit for its bond cost.

The Letter of Credit through Reliant should be okay because it automatically renews unless released, but we do need a copy of the bond premium.

Sincerely,

Cole McCormick

Tennessee Public Utility Commission

Utilities Consultant/Utilities Division

Office Phone: 615-770-6871

Cell Phone: 931-787-3174

Smith-Manus
2307 River Road, Suite 200
Louisville, KY 40206-5005
Phone: (502) 636-9191
Fax: (502) 636-5328

BOND RENEWAL INVOICE



Remit to:
Smith-Manus
2307 River Road, Suite 200
Louisville, KY 40206-5005

PAID
369
1/21/22

Mailing Address: Code: 102

Superior Wastewater Systems, LLC
PO Box 190
Arrington, TN 37104

Terms: Due Upon Receipt

Customer Copy

Bond Executed in the following Company:

Lexon Insurance Company

Principal:

Superior Wastewater Systems, LLC
PO Box 190
Arrington, TN 37104
Account Number: KingsCha0

Obligee:

Tennessee Public Utility Commission
502 Deaderick St
Nashville, TN 37219

Bond Number- Term-Trans	Effective Date	Expiration Date	Statement
0-1119014-7-1	3/14/2022	3/14/2023	MAR 22

Bond Amount	Type	Invoice Number
\$39,000.00	LICENSE & PERMIT BONDS	164637-7-1

Bond Description

TN - Public Utility Service Provider Bond

Kentucky Surcharge Amount	%	Other Taxes Amount	%
\$0.00	0.0%	\$0.00	0.0%

Premium	Plus Taxes	Total Customer Amount	Balance Due-SMA
\$1,170.00	\$0.00	\$1,170.00	\$1,170.00

Date Printed: 1/18/2022

Date Invoiced: 1/18/2022

BOND RENEWAL INVOICE



Superior Wastewater Systems, LLC

Smith-Manus
Date 1/21/2022 Type Bill Reference 164637-7-1

Original Amt.
1,170.00

Balance Due
1,170.00

1/21/2022
Discount
Check Amount

Payment
1,170.00
1,170.00

036

PAYMENT
RECORD

Reliant Operating 201 0-1119014-7-1 Bond Fee Renewal

1,170.00



10415



104151



Rev 1

Bond Number - Term - Type	Renewal Date	Expiry Date	Shaded
0-1119014-7-1	2/14/2022	2/14/2022	2017-22

Bond Amount	Type	Invoice Number
\$25,000.00	LICENSE & PERMIT BONDS	164637-7-1

Bond Description
TN - Public Utility Service Provider Bond

Regulatory Surcharge Amount	%	Other Taxes Amount	%
\$0.00	0.0%	\$0.00	0.0%

Premium	Plus Taxes	Total Customer Amount	Balance Due - SMA
\$1,170.00	\$0.00	\$1,170.00	\$1,170.00

Date Printed 1/15/2022

Date Invoiced 1/15/2022

Smith-Manus
2307 River Road, Suite 200
Louisville, KY 40206-5005
Phone: (502) 636-9191
Fax: (502) 636-5328

BOND RENEWAL INVOICE



Remit to:
Smith-Manus
2307 River Road, Suite 200
Louisville, KY 40206-5005

PAID
469

Mailing Address:

Code: 102

Superior Wastewater Systems, LLC
PO Box 190
Arrington, TN 37104

Terms: Due Upon Receipt

Customer Copy

Bond Executed in the following Company:

Lexon Insurance Company

Principal:

Superior Wastewater Systems, LLC
PO Box 190
Arrington, TN 37104
Account Number: KingsCha0

Obligee:

Tennessee Public Utility Commission
502 Deaderick St
Nashville, TN 37219

Bond Number- Term-Trans	Effective Date	Expiration Date	Statement
0-1119014-8-1	3/14/2023	3/14/2024	MAR 23

Bond Amount	Type	Invoice Number
\$39,000.00	LICENSE & PERMIT BONDS	164637-8-1

Bond Description

TN - Public Utility Service Provider Bond

Kentucky Surcharge Amount	%	Other Taxes Amount	%
\$0.00	0.0%	\$0.00	0.0%

Premium	Plus Taxes	Total Customer Amount	Balance Due-SMA
\$1,170.00	\$0.00	\$1,170.00	\$1,170.00

Date Printed: 1/18/2023

Date Invoiced: 1/18/2023

Superior Wastewater Systems, LLC

0469

Smith-Manus

Date	Type	Reference
1/20/2023	Bill	164637-8-1

Original Amt.
1,170.00

Balance Due
1,170.00

1/20/2023

Discount

Check Amount

Payment
1,170.00
1,170.00

PAYMENT
RECORD

United Community Ba 1119014-8-1 Bond Fee Renewal

1,170.00



10529



105291



Rev 6/21