

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 22, 2010

IN RE:)	
)	
PETITION OF HICKORY STAR WATER COMPANY,)	DOCKET NO.
L.L.C. FOR EXPEDITED RELIEF FOR A PASS-)	10-00029
THROUGH INCREASE OF ITS WATER EXPENSE)	

ORDER APPROVING PASS-THROUGH INCREASE OF WATER EXPENSE

This matter came before Chairman Sara Kyle, Director Kenneth C. Hill and Director Mary W. Freeman of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a Hearing held on June 7, 2010 for consideration of the *Petition* of Hickory Star Water Company, L.L.C. (“Hickory Star” or “Company”) for expedited relief for a pass-through increase of its water expense filed on February 23, 2010 and subsequently revised on May 26, 2010¹ (“*Second Revised Petition*”). Hickory Star seeks approval from the Authority for an increase in its water rates due to a rate increase imposed by the City of Maynardville (“City”). As more fully described herein, and for the reasons set forth below, the panel voted unanimously to grant the request of Hickory Star to increase rates as set forth in the *Second Revised Petition*.

BACKGROUND

Hickory Star is a limited liability company formed under the laws of the State of Delaware and authorized by the Secretary of State to conduct business in Tennessee. Hickory Star is a wholly-owned subsidiary of Hickory Star, L.L.C, the owner of the Hickory Star Marina

¹ Hickory Star initially filed a revised petition on May 13, 2010 but withdrew that revision on May 14, 2010.

and Campground in Union County. Hickory Star was granted its original Certificate of Public Convenience and Necessity on November 24, 1999 in Docket No. 99-00485. The Company purchases its water from the City pursuant to a contract for resale to its customers and provides wastewater service via an on-site septic tank system. The Company was granted its last rate increase on November 10, 2008 in Docket No. 08-00051.

SECOND REVISED PETITION

Hickory Star's *Second Revised Petition* requests an 8.92% across the board increase in its volumetric water rates. Hickory Star states the increase is needed to pass through increased water charges from the City. The Company is not seeking to increase its sewer rates or any other rates or fees. The City raised its rates approximately 25% on August 12, 2008 and approximately another 25% on December 14, 2009. Hickory Star absorbed the first increase following its last rate case but now is selling water for much less than it pays for it.² The Company incurred a \$7,644 loss during its fiscal year ended December 31, 2009.³

THE HEARING

Public notice of the Hearing in this matter was issued by the Authority on May 28, 2010. On June 7, 2010, the Company filed a copy of the public notice published in the *Knoxville News Sentinel* on May 29, 2010. No one sought intervention prior to or during the Hearing.⁴ The Hearing in this matter was convened before the TRA voting panel on June 7, 2010. Members of the public were given an opportunity to provide comments regarding the *Second Revised Petition*; however, no one from the public appeared at the Hearing. All filings in the docket were moved into the record without objection.

² *Second Revised Petition*, ¶ 8 (May 26, 2010).

³ *Id.* at ¶ 5.

⁴ On March 24, 2010, the Consumer Advocate and Protection Division of the Office of the Attorney General filed a letter in the Docket stating that the water rate pass through request did not warrant an intervention at this time.

FINDINGS AND CONCLUSIONS

The Authority is obligated to balance the interests of the utilities subject to its jurisdiction with the interests of Tennessee consumers, i.e., it is obligated to fix just and reasonable rates.⁵ The Authority must also approve rates that provide regulated utilities the opportunity to earn a just and reasonable return on their investments.⁶

The panel noted that passing on an increase in wholesale water rates to consumers is akin to the purchased gas and purchased power adjustments for gas and electric utilities under the TRA's jurisdiction. For gas and electric companies, increases or decreases in the cost of the commodity, which is beyond the utilities' control, is simply passed on to consumers without the need for a rate case. The panel found that the increased revenue requested by Hickory Star is necessary to offset increased water costs over which the Company has no control.

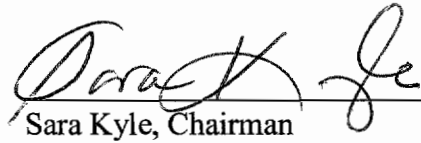
The evidence in the record demonstrated that the Company would continue to experience operating losses if it were not permitted to increase rates for the additional amount being charged by the City. Without the requested increase, the Company would continue to operate with a deficiency. Further, there is no speculation as to the amount of the needed increase, as it is fixed based on the increased water charges from the City. Upon consideration of the entire record, including all exhibits and the pre-filed testimony, the panel concluded that Hickory Star should be granted the across the board increase in its volumetric water rates. Thereafter, the panel voted unanimously to approve the new rates proposed in the *Second Revised Petition* and reflected in the proposed tariff (Exhibit 4).

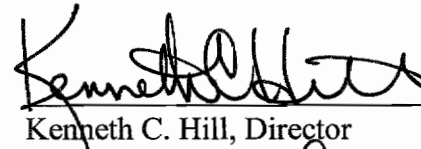
⁵ Tenn. Code Ann. § 65-5-101 (Supp. 2009).

⁶ See *Bluefield Water Works and Improvement Company v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 43 S.Ct. 675 (1923).

IT IS THEREFORE ORDERED THAT:

The *Second Revised Petition for Expedited Relief* filed by Hickory Star Water Company, L.L.C. is hereby approved. The Company shall file a revised tariff, consistent with the Authority's Order, within thirty days.


Sara Kyle, Chairman


Kenneth C. Hill, Director


Mary W. Freeman, Director