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Henry Walker
(615) 252-2363
Fax (615) 252-6383
Email hwalker@boultcummings.com
T.R.A. DOCKET ROOM

January 6, 2006

Jean Stone, Hearing Officer
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 37219

Re: *Application of Bristol Tennessee Essential Services for a Certificate of Convenience and Necessity to Provide Competing Telecommunications Services*
Docket Number: 05-00251

Dear Ms. Stone:

On behalf of Bristol Tennessee Essential Services ("BTES"), I have enclosed for filing supplemental answers to Questions 15 and 30 of United Telephone-Southeast, Inc.'s First Set of Interrogatories, which were originally responded to by BTSE on December 14, 2005.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:


Henry Walker

HW/djc
Enclosures

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

January 6, 2006

<i>IN RE: Application of Bristol Tennessee</i>)	
<i>Essential Services for a Certificate of</i>)	Docket No.: 05-00251
<i>Convenience and Necessity to Provide</i>)	
<i>Competing Telecommunications Services</i>)	

**BRISTOL TENNESSEE ESSENTIAL SERVICES SUPPLEMENTAL RESPONSE TO
UNITED TELEPHONE-SOUTHEAST, INC.'S FIRST SET OF INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS**

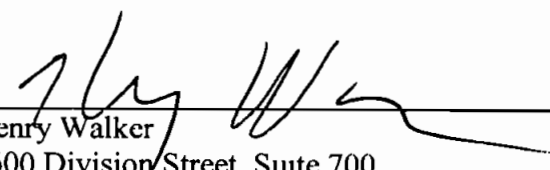
Bristol Tennessee Essential Services ("BTES") hereby submits the following supplemental responses to the First Set of Interrogatories and Requests for Production of Documents from United Telephone-Southeast, Inc. ("UTSE") filed in this docket on December 19, 2005. BTES filed its original responses on December 14, 2005.

In response to Question 15, BTES files the attached copy of its Comprehensive Annual Financial for year ending June 30, 2005. In response to Question 30, BTES files the attached copy of the Cable Franchise Resolution No. 2005-11-099 of Sullivan County, having been approved on December 19, 2005.

Respectfully submitted,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By


Henry Walker
1600 Division Street, Suite 700
P.O. Box 340025
Nashville, Tennessee 37203
(615) 252-2363

CERTIFICATE OF SERVICE


I hereby certify that a copy of the foregoing is being forwarded via U.S. mail, postage prepaid,, to:

Edward Phillips
United Telephone-Southeast, Inc.
Mailstop: NCWKFR0313
14111 Capital Blvd.
Wake Forest, NC 27587-5900

Guy Hicks
BellSouth Telecommunications, Inc.
333 Commerce Street, Ste. 2101
Nashville, TN 37201

Charles B. Welch, Jr.
Farris Matthews Branan Bobango Hellen & Dunlar, PLC
618 Church Street, Ste. 300
Nashville, TN 37219

on this the 6th day of January 2005.



Henry Walker

Sullivan County, Tennessee
Board of County Commissioners

8
Item 15
Executive
No. 2005-11-099

To the Honorable Richard S. Venable, Mayor of Sullivan County, and the Board of Sullivan County Commissioners meeting in Regular Session this 21st day of November, 2005

RESOLUTION Authorizing Franchise to Bristol Tennessee Essential Services through its Cable and Internet Business Unit

WHEREAS, Sullivan County desires to grant a franchise to Bristol Tennessee Essential Services through its cable and Internet business unit to build, construct, operate and maintain a cable television system in Sullivan County, Tennessee and hereby sets forth conditions accompanying the granting of this franchise:

NOW THEREFORE BE IT RESOLVED that the Board of County Commissioners of Sullivan County, Tennessee, assembled in Regular Session on the 21st day of November, 2005, hereby authorize a franchise to Bristol Tennessee Essential Services as follows:

Section 1 - Title. This Resolution shall be known and may be cited as the Terms and Conditions of the Cable Television Franchise

Section 2 - Definitions. For the purpose of this Resolution, and when not inconsistent with the context, words used herein in the present tense include the future; words in plural include the singular, and vice versa. The word "shall" is always mandatory. The captions supplied herein for each section are for convenience only. Said captions have no force of law, are not part of the section, and are not to be used in construing the language of the section. The following terms and phrases, as used herein, shall be given the meaning set forth below:

(a) "County" or "Grantor" is Sullivan County, Tennessee, a County under the laws of the State of Tennessee, or any successor to the Legislative powers of the present County.

(b) "Grantee" or "Company" is Bristol Tennessee Essential Services through and limited to its cable and Internet business unit. It is the grantee of rights under this franchise. Notwithstanding anything in this franchise to the contrary, the requirements of this franchise shall only apply to the cable and Internet business unit of Bristol Tennessee Essential Services and shall not apply to all or any portion of any other operations of the Bristol Tennessee Essential Services.

(c) "Franchise" is the rights granted to any person by Sullivan County under the terms of this and any agreement entered into by and between Sullivan County, Tennessee, and such person according to the terms of this Code.

(d) "County Commission" is the governing legislative body of Sullivan County, Tennessee

(e) "Person" is any person, firm, partnership, association, corporation, company or organization of any kind.

(f) "Cable System" or "Cable Television System" means a system of coaxial cables or other conductors and equipment used to receive or transmit television or radio signals originated directly or indirectly or take off the air and to transmit them to the subscribers for a fee,

(g) "CATV System" shall mean cable system

(h) "Federal Communications Commission" or "FCC" is the Federal Commission or Agency created pursuant to the Communications Act of 1934 or its successor agency

(i) "Channels" shall mean a portion of the electro-magnetic frequency spectrum (or any other means of transmission, including but not limited to optical fibers) which is capable of carrying the equivalent of one six-Mega Hertz television broadcast signal and includes uses of all or any portion of such band of frequencies.

(j) "Basic Cable Service" means any service tier which includes the re-transmission of local television broadcast signals, which tier also meets the definition of Basic Service contained in 47 U.S.C. 543(b)(7).

(k) "Resolution" or "Franchise Resolution" means this Resolution which grants a franchise and defines the specific rights and obligations of each party pursuant to the general authority, powers and restrictions of this Resolution.

(l) "Streets" shall mean the surface of and all rights-of-way and the space above and below any public street, road, highway, bridge, freeway, lane, path, public way or place, sidewalk, alley, court, boulevard, parkway, drive, waterway, dock, wharf, pier, or easement now or hereafter held by the County for the purpose of public travel and shall include other easements or rights-of-way as shall be now held or hereafter held by the County which shall, within their proper use and meaning entitle the franchisee to the use thereof for the purposes of installing or transmitting cable television system transmissions over poles, wires, cables, conductors, ducts, conduits, vaults, manholes, amplifiers, appliances, attachments, and other property as may be ordinarily necessary and pertinent to a cable television system.

(m) "Year" means the remaining portion of any calendar year in which a franchise is granted. Thereafter, "Year" means a full calendar year

Section 3 - Grant of Authority.

(a) The County warrants it has a right to issue a franchise and the Grantee, by acceptance, acknowledges and accepts the right of the County to issue the same

(b) The County hereby grants to Grantee, subject to the right of amendment as hereinafter provided, the right and privilege to construct, erect, operate and maintain, in, upon, along, across, above, over and under the streets, roads, alleys, public ways and public places now laid out or dedicated, and all extensions thereof, and additions thereto, in the County, poles, wires, cables, underground conduits, manholes, and other conductors and fixtures necessary for the maintenance and operation in the County of a cable system for the interception, retransmission, sale and distribution of television signals, radio, and data upon the limitations, terms, and conditions in this Resolution contained, as the same may be from time to time amended

(c) The right to use and occupy said streets, roads, alleys, public ways and places for the purposes herein set forth shall not be exclusive when granted by the County.

Section 4 - Compliance with Applicable Laws.

(a) Grantee, at all times during the life of its franchise, shall be subject to all lawful exercise of the police power by the County. Unless otherwise prohibited by State or Federal law, or where jurisdiction has been or shall be conferred upon a State or Federal commission, board or body, the County reserves a right by resolution to regulate such cable system as to installation fees, if any; rates and charges to be paid by the subscribers for the service; the quality of service to be provided subscribers excluding channel line-up or content; and to adopt such other rules and regulations it may now or hereafter lawfully impose in keeping with and not in conflict with applicable State or Federal law, or the lawful rules and regulations heretofore or hereafter adopted by any Federal commission, board or body and/or any lawful State rules and/or regulations lawfully adopted by any State commission, board or body.

(b) Grantee, its successors and assigns granted a franchise hereunder shall be subject to lawful regulations heretofore or hereafter adopted by the Federal Communications Commission and should it now be or hereafter become subject to the jurisdiction of any other commission then also to the lawful rules and regulations adopted by such commission and also to the lawful rules and regulations adopted by any similar Federal commission or State regulatory body, having jurisdiction. If the Grantee, its successors or assigns, shall fail to comply with any material Federal and/or State statute, rules, regulations, orders or conditions lawfully vested under Federal law in any Federal regulatory body and/or rules, regulations, orders and conditions lawfully vested in the County, the County shall have the right to terminate or cancel any franchise granted hereunder after written notice to the Grantee to correct such failure or default and such failure or default shall continue for a period of time specified in such notice, not less than 90 days.

Section 5 - Franchise and Area. Any franchise granted hereunder relates to the present area within the boundaries of the County which is outside of the city or town limits of any incorporated places within the County. The foregoing franchise area shall be further limited to the electric system service area of Bristol Tennessee Essential Services.

Section 6 - Services. The cable television system provided by the Grantee shall be capable of delivering 70 channels to all customers.

Section 7 - Customer Service and Signal Quality Requirements. The Grantee shall:

(a) Comply with the technical standards provided by the Federal Communications Commission at 47 C.F.R. 76.601 through 76.609, as from time to time amended.

(b) Limit failures which leave five or more subscribers with no cable service to a minimum by locating and correcting such malfunctions properly and promptly, but in no event longer than 24 hours after notice unless prevented by an act of God or causes beyond the control of the Grantee, e.g., power failure.

(c) Demonstrate by instruments or otherwise to subscribers that a signal of adequate strength and quality is being delivered.

(d) In the case of any outage from any cause, other than an act of God, in which one or more customers are completely without cable service for 24 hours or more, upon the request of the customer calculate a pro rata reduction in the charge for cable service to be itemized and included in the next regular bill to the customer(s) involved.

(e) Comply with the Customer Service and Consumer Protection Standards at 47 C.F.R. 76.309, as from time to time amended by the Federal Communications Commission.

Section 8 - Public, Educational & Governmental Access Channels and Emergency Broadcast Services Required.

(a) The Grantee shall provide, but without charge and subject to the rules and regulations of the Federal Communications Commission, public emergency broadcast capabilities whereby the County can interrupt service on all channels in order to make such public emergency communications as it deems necessary

(b) Grantee shall reserve a minimum of one channel for public, educational and governmental (PEG) access use. With prior approval of the County, such channel(s) may be used by Grantee for other purposes when not required by PEG users. The County shall assume all responsibility for regulation and/or scheduling the use of the PEG channel(s) by any and all users.

Section 9 - Indemnification. To the extent permitted by law, Grantee shall indemnify and save the County harmless from all liability and loss including reasonable attorney's fees and expenses sustained by the County on account of any suit, judgment, execution, claim or demand whatsoever against the County resulting from negligence on the part of Grantee in the construction, operation or maintenance of its cable television system in the County, and for this purpose, Grantee shall carry property damage and personal injury insurance with some responsible insurance company or companies qualified to do business in the State of Tennessee. The amounts of such insurance to be carried for liability due to property damages shall be \$1,000,000 as to any one occurrence; and against liability due to injury to or death of person \$1,000,000 as to any one occurrence. The County shall notify Grantee, in writing, within 10 days after the presentation of any claim or demand, either by suit or otherwise, made against the County on account of any negligence as aforesaid on the part of Grantee. Where any such claim or demand against the County is made by suit or legal action, written notice thereof shall be given by the County to Grantee not less than five days prior to the date upon which an answer to such legal action is due or within 10 days after the claim or demand is made upon the County, whichever notice period yields Grantee the larger amount of time within which to prepare an answer.

Section 10 - Construction and Maintenance.

(a) All structures, lines and equipment erected by Grantee within the County shall be so located as to cause minimum interference with the proper use of streets, roads, alleys, public ways and places and to cause minimum interference with the rights or reasonable convenience of property owners.

Existing poles, posts, conduits, and other such structures of any electric power system, telephone company, or other public utility located in the County shall be used to the extent practicable in order to minimize interference with travel and avoid unnecessary duplication of facilities. The County shall actively assist Grantee to the fullest extent necessary in obtaining reasonable joint pole or conduit use agreements from the owners of existing poles or conduits. To the extent that existing poles, posts, conduits, and other such structures are not available, or are not available under reasonable terms and conditions, including excessive cost or unreasonable limitation upon the use of Grantee's cable television system, Grantee shall have the right to purchase, lease, or in any other manner acquire land, rights-of-way, or public utility easements upon or under which to erect and maintain its own poles, conduits, and other such structures as may be

necessary for the construction and maintenance of its cable television system. Where all other existing utilities are underground, Grantee shall locate its facilities underground.

(b) In case of any disturbance by Grantee of pavement, sidewalk, driveway or other surfacing, Grantee shall, at its owner cost and expense and in a manner approved by the County, replace and restore all paving, sidewalk, driveway or surface so disturbed in as good condition as before said work was commenced.

(c) Grantee shall, on the request of any person holding a building moving permit issued by the County, temporarily raise or lower its lines to permit the moving of the building. The expense for such temporary removal shall be paid by the person requesting the same, and Grantee shall have the authority to require such payment advance.

(d) All poles, lines, structures and other facilities of Grantee in, on, over and under the streets, sidewalks, alleys, public utility easements and public grounds or place of the County shall be kept by Grantee at all times in a safe condition.

(e) When the County undertakes any reconstruction, realignment or any other work on the County streets which would require relocation or modification of Grantee's poles, wires or other facilities, County shall notify Grantee, and Grantee shall be responsible for such relocations of Grantee's facilities.

Section 11 - Service Extension. Grantee agrees to extend its cables or provide additional service within the limits of the franchise area so as to make the service available to all residential occupancies within the franchise area which request such service where such residential occupancies exist at a density of 25 homes per mile of service cable as measured from the nearest point of the existing System and the extension area is not served by another cable television operator. A standard installation, i.e., an aerial drop of 150 feet or less, will be done at normal rates. Non-standard installations, i.e., underground drops and aerial drops in excess of 150 feet, will be done on a time-and-material basis.

Section 12 - Amendments and Supplemental Agreements. It shall be the policy of the County to amend the Franchise, upon application of the Grantee, when necessary to enable the Grantee to take advantage of any development or developments in the field of transmission of television and radio signals which will afford it an opportunity to more efficiently, effectively or economically serve its customers. Provided, however, that this section shall not be construed to require the County to make any amendment.

Section 13 - Maps, Plats and Reports.

(a) The Grantee shall file with the County Mayor a true and accurate map or plat of all existing and proposed installations. Such map or plat shall be updated at least annually. Grantee shall also provide annually a map showing the areas where the Grantee anticipates cable service will be extended in the coming 12 months.

(b) The Grantee shall file with the County Mayor a true and accurate map or plat of all existing and proposed installations. Such map or plat shall be updated at least annually. Grantee shall also provide annually a map showing the areas where the Grantee anticipates cable service will be extended in the coming 12 months.

(c) The Grantee shall at all times keep on file with the County Mayor a current list of its officers and directors

Section 14 - Franchise Term and Renewal. This franchise shall take effect and be in full force upon acceptance by Grantee as provided in Section 19, and the same shall continue in full force and effect for a term expiring March 4, 2011. Renewals shall be accomplished as provided for in Federal law and regulations.

Section 15 - Forfeiture. If Grantee should violate any material terms, conditions, or provisions of this franchise or if Grantee should fail to comply with any material provisions of any resolution of the County regulating the use by Grantee of the streets, alleys, public utility easements or public ways of the County, and should Grantee further continue to violate or fail to comply with the same for a period of 90 days after the Grantee shall have been notified in writing by the County to cease and desist from any such violation or failure to comply so specified, then Grantee may be deemed to have forfeited and annulled and shall thereby forfeit and annual all the rights and privileges granted by this franchise; provided, however, that such forfeiture shall be declared only by written decision of the County Commission after an appropriate public proceeding before the County Commission affording Grantee due process and full opportunity to be heard and to respond to any such notice of violation or failure to comply, and provided further that the County Commission may, in its discretion and upon a finding of violation or failure to comply, impose a lesser penalty than forfeiture of this franchise or excuse the violation or failure to comply upon a showing by Grantee of mitigating circumstances. Grantee shall have the right to appeal any finding of violation or failure to comply with any resultant penalty to any court of competent jurisdiction, as provided in 47 U.S.C. 555. In the event that forfeiture is imposed upon Grantee, it shall be afforded a period of six months within which to sell, transfer, or convey this cable television system to a qualified purchaser at fair market value. During this six-month period, which shall run from the effective date of the final order or decision imposing forfeiture, including any appeal, Grantee shall have the right to operate this cable television system pursuant to the provisions of this franchise.

Section 16 - Surrender Right. Grantee may surrender this franchise at any time upon filing with the County Mayor of the County a written notice of its intention to do so at least six months before the surrender date. On the surrender date specified in the notice, all of the rights and privileges and all of the obligations, duties and liabilities of Grantee in connection with this franchise shall terminate. Further, should the Grantee, his and/or its successors and assigns discontinue the business for which the franchise is granted, all poles, wires, cables and other devices shall be removed without expense to the County, within 90 days after demand for such removal is made by the County

Section 17 - Transfers. All of the rights and privileges and all of the obligations, duties and liabilities created by this franchise shall pass to and be binding upon the successors of the County and the successors and assigns of Grantee; and the same shall not be assigned or transferred without the written approval of the County Commission, which approval shall not be unreasonably withheld, in compliance with the requirements of 47 U.S.C. 537(d), provided, however, that this Section shall not prevent the assignment or hypothecation of the franchise by Grantee as security for debt without such approval, and provided further that transfers or assignments of this franchise between any parent and subsidiary corporation or between entities of which at least 50 percent of the beneficial ownership is held by the same person, persons, or entities shall be permitted without the prior approval of the County Commission.

Section 18 - Franchise Fee. In consideration of the terms of this franchise, and in conformity with 47 U.S.C. 542, Grantee agrees to pay the County a sum of money equal to three percent (3%) of the gross annual receipts from basic cable service charges plus any additional service tier, any new product tier, and a la carte tiers received by Grantee from its subscribers in that portion of the Sullivan County covered by this franchise, but not including charges for connections, disconnections and other charges which are normally nonrecurring in character. Such sum shall be payable quarterly, no later than the 30th of the month following the end of the quarter. This payment shall be in addition to any other tax or payment owed to the County by Grantee, including ad valorem and business taxes.

Section 19 - Effective Date and Acceptance. This Resolution shall become effective upon passage and, after acceptance by Grantee, shall then be and become a valid and binding contract between the County and Grantee; provided, however, that this Resolution shall be void unless Grantee shall, within 90 days after the final passage of this Resolution, file with the County Mayor of the County a written acceptance of this Resolution and the franchise herein granted, agreeing that it will comply with all of the provisions and conditions hereof and that it will refrain from doing all of the things prohibited by this Resolution.

Section 20 - Severability. If any section, subsection, sentence, clause, phrase or portion of this Resolution is for any reason held invalid or unconstitutional by any Federal or state court or administrative or governmental agency of competent jurisdiction, specifically including the Federal Communications Commission, such portion shall be deemed a separate, distinct and independent provision, and such holding shall not affect the validity of the remaining portions hereof.

Section 21 - Notice. All Notices shall be in writing and shall be sufficiently given and served upon the other party by hand delivery, first class mail, registered or certified, return receipt requested, postage prepaid, or by facsimile with confirmed transmission and addressed as follows

County/ Grantor.

Sullivan County
Attn: County Mayor's Office
3411 Highway 126, Suite 206
Blountville, TN 37617

Grantee:

General Manager
Bristol Tennessee Essential Services
2470 Volunteer Pkwy
Bristol, TN 37620

Section 22 - Entire Agreement. This Franchise Agreement embodies the entire understanding and agreement of the Grantor and the Grantee with respect to the subject matter hereof. All Resolutions or parts of Resolutions or other agreements whether written, verbal, or otherwise between the Grantee and the Grantor that are in conflict with the provisions of this Franchise Agreement are hereby declared invalid and superseded and this Franchise Agreement shall control.

Section 23- Governing Law. This Franchise Agreement shall be deemed to be executed in Sullivan County, State of Tennessee, and shall be governed in all respects, including validity,

interpretation and effect, and construed in accordance with, the laws of the State of Tennessee, as applicable to contracts entered into and performed entirely within the State

This resolution shall take effect from and after its passage. All resolutions in conflict herewith be and the same rescinded insofar as such conflict exists.

Attested: Jeannie Gammon
Jeannie Gammon, County Clerk

Approved: Richard S. Venable
Richard S. Venable, County Mayor

Sponsored By: M. Vance

Prime Co-Sponsor(s): B. King, Sitgreaves

2005-11-099	Administrative	Budget	Executive	County Commission
ACTION				Approved 12-19-05 20 Aye, 4 Absent

Notes: 1st Reading 11-21-05;

**Comprehensive Annual
Financial Report**

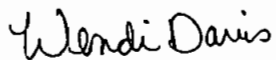
Bristol Tennessee Essential Services

A Municipal Electric Utility
of the City of Bristol, Tennessee

Year ended June 30, 2005

Prepared by:

Accounting and Finance Department and General Manager



Wendi Davis
Director of Accounting and Finance



R. Michael Browder
General Manager

Bristol Tennessee Essential Services
Comprehensive Annual Financial Report

Year ended June 30, 2005

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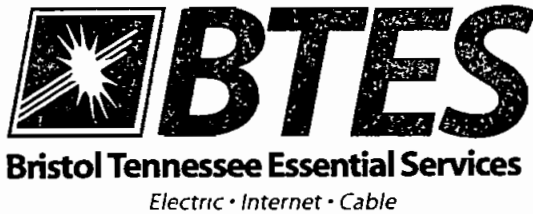
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2470 Volunteer Parkway • P. O. Box 549 • Bristol, TN 37621-0549
423/968-1526 • Fax 423/793-5545

December 20, 2005

To the Chairman and Members of
the Power Board of Bristol Tennessee
Essential Services

Letter of Transmittal

The Comprehensive Annual Financial Report ("CAFR") of Bristol Tennessee Essential Services ("BTES"), a self-supporting governmental enterprise fund of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935, for the fiscal year ended June 30, 2005, is submitted herewith

The CAFR was compiled by the staff of the Accounting and Finance Department with the close cooperation of our independent auditor. It represents the official report of BTES' financial operations and conditions to the citizens, the Board, BTES management, rating agencies and other interested parties.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with BTES. We believe the data, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations and cash flows of BTES.

All disclosures necessary for the reader to gain a thorough understanding of BTES' financial condition have been included.

In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in four sections:

- Introductory Section
- Financial Section
- Statistical Section
- Internal Control and Compliance Section

The **Introductory Section** includes the table of contents, this transmittal letter, an organizational chart of BTES, BTES' general philosophy, background of BTES and a brief recap of fiscal year 2005.

The **Financial Section** is composed of the report of independent auditors; Management Discussion and Analysis, including a narrative introduction, financial overview and financial analysis; and the financial statements. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

Letter of Transmittal (continued)

The **Statistical Section** includes selected financial and demographic trend information. The tables within this section differ from certain information in the financial section in that they represent some non-accounting data covering ten fiscal years. These data were accumulated through BTES' statistical collection.

The **Internal Control and Compliance Section** includes the independent auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

The accompanying financial statements present the financial position, results of operations and cash flows of BTES, in accordance with the requirements of the Governmental Accounting Standards Board ("GASB")

This report does not include the financial activities of the City of Bristol, Tennessee. Financial reports are available directly from the City of Bristol, Tennessee.

Bristol, Tennessee is located in the northeastern portion of the state. It is one of three cities in Sullivan County, with the other two being Kingsport and Bluff City. The population of Sullivan County is 153,050. Its industrial base is primarily manufacturing, followed by the service sector and agriculture.

Because of its central location in the eastern United States, Bristol is within 600 miles of approximately 53% of the population of the United States. Interstate 81 passes through the city. Bristol is part of the metropolitan statistical area ("MSA") of Bristol, Johnson City and Kingsport, commonly called the Tri-Cities MSA. With a population of over 479,830 people, the Tri-Cities MSA is 111th largest in the United States.

Bristol benefits from the state's high ranking in Alexander Grant and Company's GENERAL MANUFACTURING CLIMATES, which ranks Tennessee near the top in the nation as a place for manufacturing.

Bristol is a good place to work and live, with the following amenities:

- Excellent health care facilities
- Seven Tennessee Valley Authority lakes with 2,200 miles of shoreline
- Five national parks
- Bristol Motor Speedway (Two NASCAR dates per year with over 160,000 seats)
- Low crime rate
- Four distinct seasons
- Excellent schools
- Nine colleges and universities (Degrees ranging from Art to Medicine)
- Seven beautiful golf courses

Bristol and the surrounding areas continue to grow and prosper. Eastman Chemical Company is headquartered in Sullivan County. Exide's Super Battery Plant is in Bristol where they build and charge over 30,000 batteries per day. Several smaller facilities, such as The Robinette Company and Image 1 Wireless, have expanded or are planning an expansion. Royal Mouldings, located in the Bristol Industrial Park, is the largest marketer and manufacturer of decorative polymer moldings in the United States. They currently employ 75 people at their 150,000 square foot facility on 28 acres in the Bristol Industrial Park. They expect to expand their current location to 450,000 square feet in the near future and add additional employees.

Letter of Transmittal (continued)

FINANCIAL INFORMATION

BTES AS AN ENTERPRISE FUND

BTES operates under an independent Power Board as an enterprise fund of the City of Bristol, Tennessee. This being the case, BTES funds its expenditures through its rates and charges and receives no income from City taxes. BTES establishes rates annually to provide for anticipated cash outlays for operating expenses and capital improvement requirements.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

BTES' financial accounting system is based on accounting principles generally accepted in the United States of America. Internal accounting controls are an integral part of BTES' accounting process and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that records used for preparing financial statements and maintaining asset accountability are reliable.

BTES applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Consistent with other public utility enterprise funds, BTES has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."

BTES' Power Board approves BTES' annual budget for its recommended rate, expenses and capital outlays. An analysis of revenue and operating expenses for the year ended June 30, 2005, is provided in the Financial Section of this report.

ELECTRIC PLANT

Electric plant is stated at cost, which includes cost of contract work, labor, materials and allocated indirect charges. Major renewals and betterments are capitalized, while minor replacements and repairs are expensed as incurred. Property, plant and equipment are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The provision for depreciation does not include depreciation on transportation equipment per Federal Energy Regulatory Commission Guidelines. Those amounts are reported as operation expenses in the Statements of Revenues, Expenses and Changes in Net Assets. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation when property is removed from service.

CASH MANAGEMENT

BTES' moneys are deposited in banks insured by the FDIC. Investments permitted include obligations of the U.S. Treasury and U.S. agencies and certificates of deposit. Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value. The cash management performance for the year ended June 30, 2005, produced interest earnings of \$520,614.

Letter of Transmittal (continued)

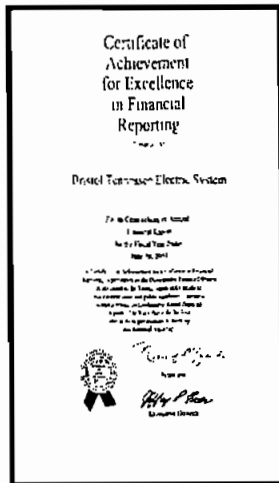
RISK MANAGEMENT

BTES' assets are protected through a third party insurance provider. Through this provider, coverage is provided for workers' compensation, comprehensive, general and automobile liability, auto physical damage, crime and fiduciary, errors and omissions, property, boiler and machinery and pollution. BTES has not experienced a loss in excess of insurance coverage in any of the past three fiscal years.

INDEPENDENT AUDIT

BTES has an annual audit performed by independent certified public accountants. The firm of Coulter & Justus, P. C., was selected by the Board. The auditor's report on the financial statements is included in the Financial Section of this report.

AWARDS



For the first time, the Government Finance Officers Association ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to BTES for its CAFR for the fiscal year ended June 30, 1997. BTES was also awarded the certificate for its CAFR for the fiscal years ended June 30, 1998, 1999, 2000, 2001, 2002, 2003, and 2004. To qualify for this prestigious award, BTES issued an easily readable and efficiently organized CAFR. In addition, this report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our present report continues to meet the program's requirements, and we are submitting it to the GFOA to determine eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the staff of the Accounting and Finance Department. We express our sincere appreciation to those who assisted and contributed to its preparation.

Sincere appreciation is also expressed to Sam Coulter, CPA, Don Talbott, CPA, and Ricky Jackson, CPA, and the staff at Coulter & Justus, P.C., for assistance throughout the year pertaining to various financial matters and for their assistance in the preparation of this report.

In closing, we would like to thank the members of the Power Board of Bristol Tennessee Essential Services for their interest and support in planning and conducting the operations of BTES in a responsible and progressive manner.

Respectfully submitted,

Wendi Davis

Wendi Davis
Director of Accounting and Finance

R. Michael Browder

R. Michael Browder
General Manager

BACKGROUND INFORMATION

On June 30, 1945, the Tennessee Valley Authority (TVA) purchased the properties of East Tennessee Light and Power Company. Bristol Tennessee Essential Services (BTES) was started July 1, 1945 as a result of a referendum in which the citizens of Bristol, Tennessee voted to purchase from TVA a portion of these properties. A \$1.3 million issue of Electric Light and Power bonds was required to finance the transaction. BTES immediately agreed to terms of a 20-year power contract for TVA to supply power which BTES distributed to the public at substantially lower rates.

As per Chapter 32 Public Acts of Tennessee 1935 and the contract with TVA, a five-member Power Board was established by the City to have general supervision and control of the municipally-owned electric system with one member serving from City Council. Current board members include Pereda R. "Pete" Paty, Patrick W. Hickie, Jr., Bryan K. Boyd, J. Scott MacMorran and City Council representative David Shumaker.

The International Brotherhood of Electrical Workers (IBEW) has represented the trades and crafts employees since prior to TVA purchasing BTES from East Tennessee Light and Power.

Sixty BTES employees serve over 31,000 customers in Bristol, Tennessee, Sullivan County and a portion of Washington County, Virginia (approximately 280 square miles of service area).

BTES purchases electric power from the Tennessee Valley Authority (TVA), the nation's largest public power generator of electricity. Our customers pay approximately 5.6 cents per kilowatt hour while the national average is 8.5 cents per kilowatt hour. BTES has had seven rate reductions since June 1982 with the most recent in October 1997. This does not include changes in wholesale power costs from TVA. In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. This effectively raised the rates on residential customers by 6% and small general power customers by 7%.

The electricity we purchase from TVA is delivered at 161,000 volts to our two delivery points, Bluff City Primary and Blountville Primary Substations. We step it down to 69,000 volts for subtransmission to other substations and to 13,200/7620 volts for distribution. In some cases, small distribution substations provide additional voltage reduction to large general power loads. The voltage entering a customer's home is 120/240 volts which is utilized for lighting, heating and operating household appliances. Businesses and industries may be served at 208/120, 480/277, 4160/2400 volts or other standard voltages.

In 1994, BTES received the American Public Power Association's prestigious E. F. Scattergood System Achievement Award for outstanding achievement by a utility.

BACKGROUND INFORMATION (continued)

Also in 1994, BTES was one of three organizations to receive the Tennessee Quality Excellence Award presented to us by Governor Ned McWherter. The other two recipients were Nissan and FedEx. Other organizations that have received this prestigious award include: Eastman Chemical Company, Philips Consumer Electronics Company, Bridgestone/Firestone Company, Eaton Corporation, Methodist Medical Center of Oak Ridge, Baptist Health Systems of Knoxville, Fleetguard Incorporated, Caterpillar Financial Services, Memphis Light, Gas and Water and Pal's Sudden Service.

In June 1996, BTES received the American Public Power Association's Golden Tree Award in recognition of BTES planting over one tree per customer.

In June 1997, BTES received the American Public Power Association's Community Service Award for outstanding civic and community involvement by our employees.

In October 1997, General Manager R. Michael Browder received the 1997 Jim Spradley Award for individual accomplishments in the field of industrial and economic development in Tennessee that go above and beyond the requirements of the vocation for which they are compensated. The award was presented by Governor Don Sundquist at the Governor's Economic Summit in Nashville.

In May 2000, General Manager R. Michael Browder received the Tennessee Valley Public Power Association's Distinguished Service Award for his exceptional performance and contributions toward the accomplishment of the organization's goals.

In June 2002, General Manager R. Michael Browder completed his year as Chairman of the Board of the American Public Power Association.

For fiscal year 2003, we received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the sixth year in a row.

On December 15, 2004, the BTES Board of Directors changed the name of the organization from "Bristol Tennessee Electric System" to "Bristol Tennessee Essential Services" to reflect the new services being offered.

In February 2005, BTES received the National Arbor Day Foundation Tree Line USA Award for the sixth year in a row in recognition of quality tree care, annual worker training, tree planting and public education.

RECAP OF FISCAL YEAR 2005

During the past year, major engineering and construction projects included 12 spans, three-phase overhead line for Bristol West; seven spans, three-phase overhead line along Hamilton Road to serve Grande Harbor Subdivision; relocating four spans, three-phase at bridge located at Tri-Cities Regional Airport; seven spans, 69 kV tie line around Steele Creek Substation; and replacing underground feeder, circuit 384 from Shelby Street Substation.

We installed over 51,300 feet of underground primary conductors to serve the following new subdivisions: The Reserve, Grande Harbor 1, Baker-Dry Branch Road, Avoca Condos and Grande Harbor II.

RECAP OF FISCAL YEAR 2005 (continued)

Approximately 70 miles of fiber optic cable were installed, bringing the total to nearly 120 miles, to continue the interconnection of substations to the Power Service Center. Fiber optic cable is lightning resistant, if not lightning proof. Thus, along with the reliability and speed of the fiber optic cable, greatly enhances SCADA functionality to substations.

BTES received approval to offer cable television and high speed Internet service to customers. As a result, the name "Bristol Tennessee Electric System" was changed to "Bristol Tennessee Essential Services" to reflect these new lines of business.

Our outage time per customer was 81 minutes for calendar year 2004 which gives us a reliability index of 99.984.

During the last five years, we have been able to maintain our goal of a five-year tree clearance cycle. We continue to monitor frequency of tree-caused outages by areas and make more frequent visits to these areas. In 2004-2005, we cleared trees along feeder lines at Pemberton Substation circuits 214 and 224; Ruthton Substation circuits 234, 274, and 254; Shelby Substation circuits 284, 294, 234, 2014 and 236; and Scott Substation circuits 214, 224, and 254.

Our goal is to maintain the distribution transformer capacity ratio to 200 percent of peak demand or less. We continue to work to improve this number. We will continue our transformer loading program to help us predict new customer demand needs. The transformer loading program will assist us in identifying transformers that we will investigate for being heavily loaded and change if necessary.

During our routine substation preventative maintenance program, we discovered potential problems and made repairs to battery problems at Bluff City District and Shelby Street Substations; regulator problems at Adams Chapel, Buffalo and Piney Flats Substations and SCADA issues at Bluff City Primary and Airport Substations.

We checked 247 three-phase meter installations which resulted in finding and correcting two meter inaccuracies. All other meter installation checks were found to be okay.

Fifty-four problems ranging from minor to critical were discovered and repaired during our annual infrared inspections.

For the first eleven months of fiscal year 2005, the value of stores inventory was \$565,827. Stores personnel continue to monitor inventory levels and look for ways to reduce the cost of inventory. They work closely with engineering and construction personnel to have material for major jobs on hand just in time for the start of construction.

As the city's largest taxpayer, we paid the maximum in-lieu-of-tax payments as provided by Tennessee State Law and the TVA Contract to the City of Bristol in the amount of \$361,146 for fiscal year 2005. Combined with the taxes paid to Sullivan County, Bluff City and Washington County, Virginia, a grand total of \$573,259 was paid by BTES.

RECAP OF FISCAL YEAR 2005 (continued)

We planted 106 dogwoods during the first 10 months of fiscal year 2005 through our Trade-A-Tree program.

Installation of an electronic mapping system is currently in progress. We are using a Trimble Global Positioning System (GPS) to enter the geographic location of all power system features such as poles, transformers, meters and lines into the BTES mapping system. The mapping platform will operate as a Geographical Information System (GIS) that will link BTES customer and facility data to the geographical symbols on the maps. A base map consisting of roads and property parcels is being used along with aerial photographs of the BTES service area. After the field data has been collected on all of the power system facilities, the new electronic maps will replace the existing paper mapping system.

Our bad debts, as a percentage of retail revenue, averaged 0.201 percent for the first ten months of fiscal year 2005, which is well below our stated goal of 0.25 percent. The industry target is 0.4 percent. This has been accomplished in a variety of ways. We diligently work to prevent customers from falling too far behind in paying their electric bill. We thoroughly screen new applications to determine inclination to pay. In an effort to help those in need find necessary funding, we work with area churches, the Salvation Army, United Way, the Upper East Tennessee Human Development Authority and other customers via our Help Your Neighbor program. Our deposit procedure seems to be working well. Residential customers who demonstrate a history of paying their bills in a timely manner may have their deposit waived. A general power customer with a calculated standard deposit of \$10,000 or less which has a principal owner who has lived on our system five or more years with good pay and credit history and is willing to guarantee the account, may have the deposit reduced or waived. To date, no adverse effects have been detected.

We have been prepaying our power bill. Under this arrangement, we use an automated clearing house to send our money to TVA before actual payment is due. In return, we receive "interest" payments from TVA for the amount of their cost of short-term borrowing. This is used when TVA's rate is higher than we are able to receive through other investment vehicles.

In December 2002, we purchased \$8 million of Discounted Energy Units from TVA. Our participation in the program will assure a long-term supply of power at a low price and increase our return on investments. Over a ten year period, our power bill will be discounted by the principle and interest earned.

Efforts to increase sales of electricity continued. Efforts are ongoing to increase the use of heat pumps and electric water heaters, especially water heaters that can be switched off during peak-demand periods. During calendar year 2004, we inspected 173 heat pump installations and installed 722 water heaters. BTES has over 13,332 load-managed water heaters. During calendar year 2004, TVA paid us \$789,899 for the ability to cycle these water heaters off during peak times. More than 31 loans were made through the Energy Savings Loan Program at a total of \$122,743. Advertising, direct involvement with customers through our Homebuilders Association Spring Home Show, health fair booths, other events and communicating through our customer newsletter and electric bill messages continues to help add growth in these areas.

RECAP OF FISCAL YEAR 2005 (continued)

We continue to make subdivision development agreements available to developers. Instead of initially collecting the total cost for electric facilities installed to serve subdivisions, we offer to waive all or part of these costs for developers who agree to have all-electric homes with inspected heat pumps and load-managed water heaters built in their developments. Total costs are charged for any lots on which homes are built that are not all-electric. We presently have 749 lots in 31 subdivisions covered under this type agreement.

Each customer who purchases a BTES water heater or who has an inspected heat pump installed is surveyed by mail. The surveys are used to monitor quality and customer satisfaction of the program, satisfaction with BTES employees and Quality Contractor Network employees.

For the 14th consecutive year, in cooperation with the Bristol Chamber of Commerce, the City of Bristol, Tennessee and the State of Tennessee, we maintained the Governor's Three-Star Community Economic Preparedness Program Award which signifies that Bristol has the organization, attitude, facilities and skills to attract and retain industry. A major component of this certification is having available property for industrial development. The Bristol Industrial Park purchased by BTES provides this component.

In calendar year 2004, BTES personnel visited 81 existing industries to discuss electrical needs, expansion possibilities and their satisfaction with the service they are receiving. BTES worked with the City of Bristol, State of Tennessee, TVA and Sullivan County to identify and assist 18 businesses with expansions or relocations to the Bristol area, resulting in the potential for 416 new jobs.

Our *Help Your Neighbor* program was conducted successfully for the 13th year to assist residential electric customers in paying their winter electric bills during difficult times. This year \$13,402 was contributed by customers and BTES' match, providing assistance for over 100 families. As in the past, the need of the customer is identified by the Salvation Army and funds are administered by the United Way.

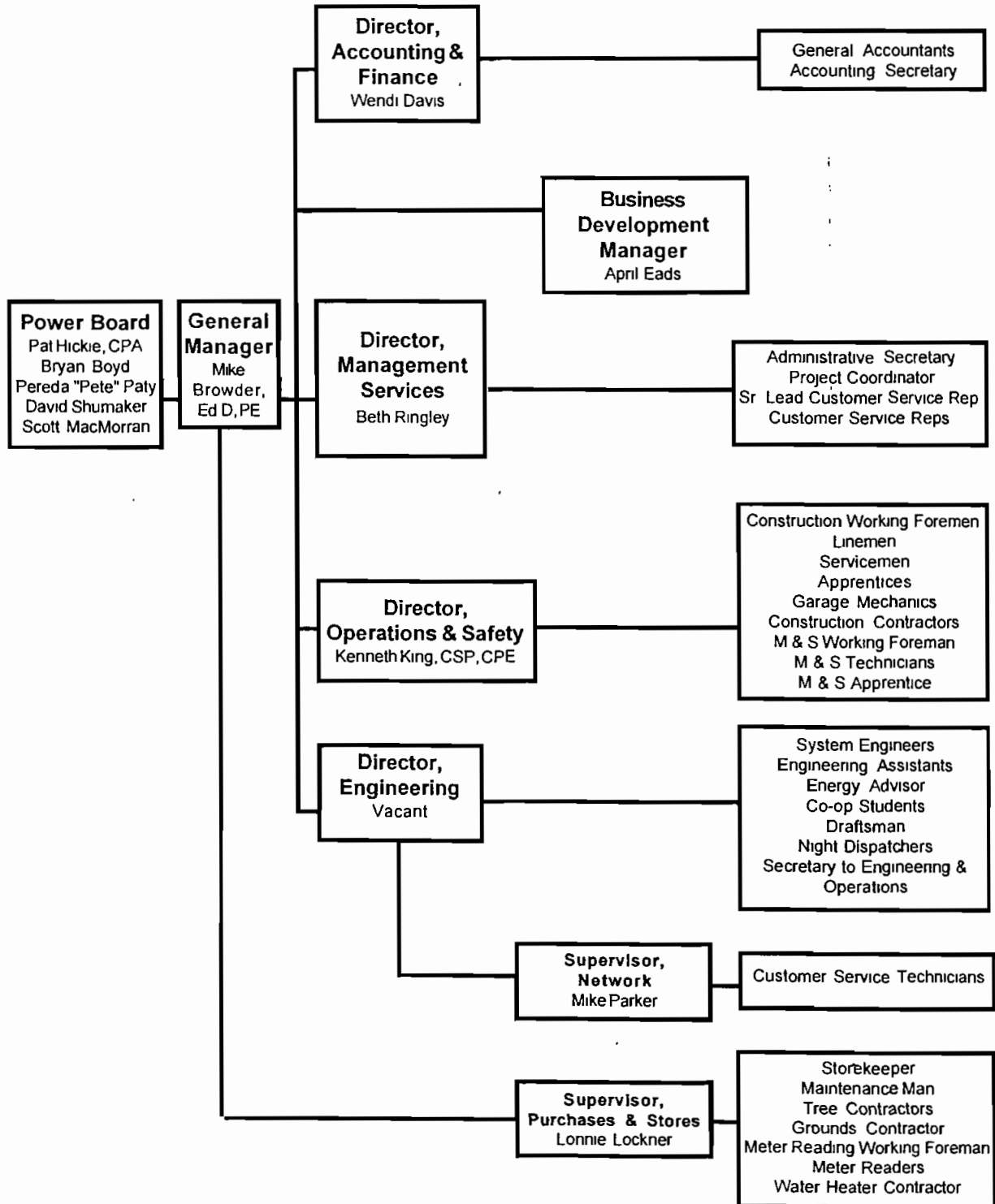
Sixty-eight percent of our employees had perfect attendance for calendar year 2004.

For the 22nd consecutive year, we had no lost-time accidents with a total of over 2.9 million man-hours since the last lost-time accident in 1982. There were no known high voltage personal injuries involving BTES facilities.

We presented 37 awards at our heat pump dinner for Quality Contractor Network members.

At the annual Service Awards Banquet, we presented awards representing 229 years of service including: one employee for 35 years of service, two employees for 30 years of service, three employees for 25 years of service, one employee for 20 years of service, one employee for 15 years of service, one employee for 10 years of service and two employees for five years of service to BTES and four recognition awards for new employees.

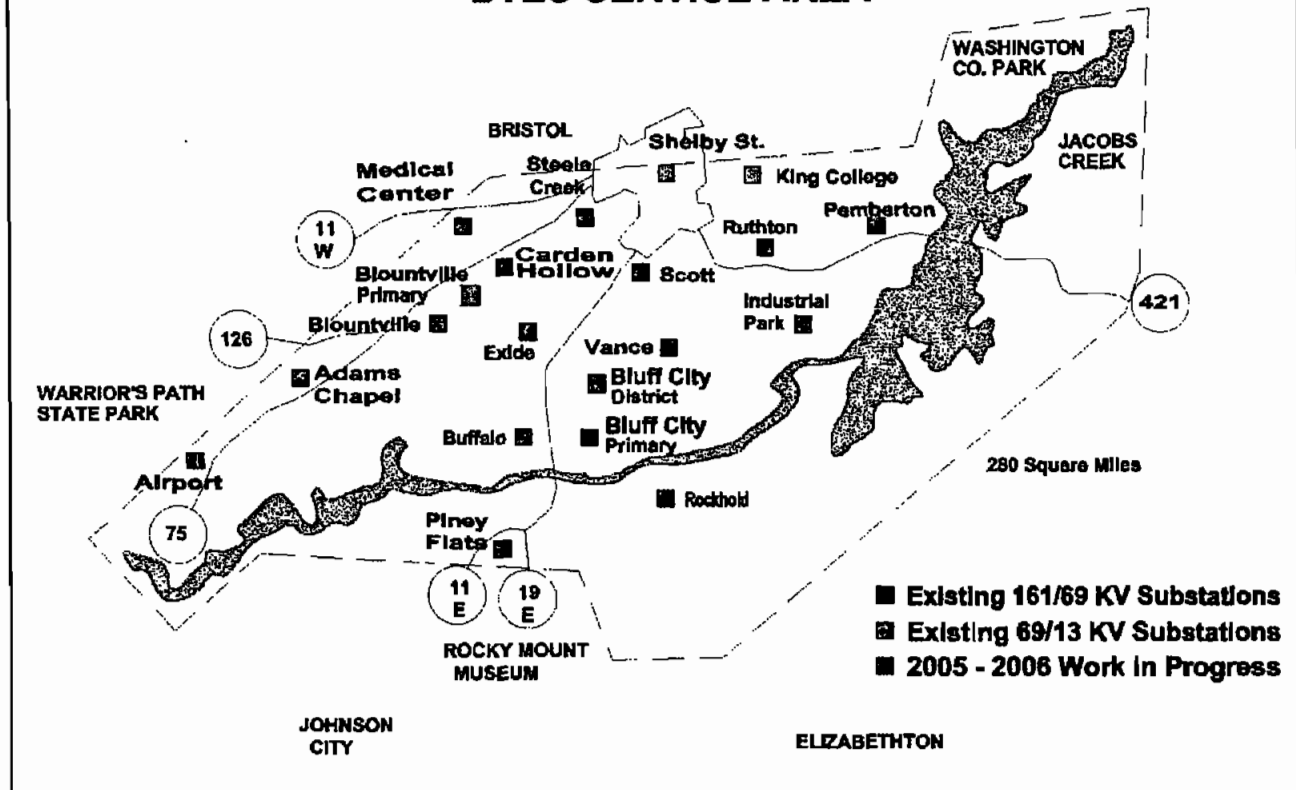
BTES Organization Chart



General Philosophy

- ***Reliable Electric Service For Our Customers Is Essential***
The customer is our reason for being and ultimately judges the quality of our service. We must provide safe, reliable, cost-effective service and properly allocate costs for BTES to survive, grow and meet the needs of our present and future customers.
- ***BTES Employees Are Our Most Important Asset***
They provide the intelligence and determine the reputation of our organization. They are respected as valuable team workers striving to meet our goals of quality service. We are committed to providing a safe and healthy workplace for all BTES employees who are the driving force behind all we do.
- ***Resources Must Be Wisely Allocated And Used***
Our resources (time, money, facilities and equipment) must be wisely allocated, utilized and invested to enable us to provide quality service at reasonable long-term rates.
- ***Our Vendors And Suppliers Are Our Partners***
They provide goods and services that enable us to meet the needs of our customers. We will treat our vendors and suppliers with respect and create an environment which will ensure mutual success.
- ***Increasing Sales Helps Keep Rates Down***
We are committed to increasing sales by developing additional load such as residential heat pumps, water heaters and industrial and commercial loads. This will help provide us a broader base to divide expenses which helps keep rates down.
- ***Safety, Conservation And Efficient Use Of Electricity Are Essential***
We must provide a customer communication program through all area news media, school and civic programs, direct mail, in-house seminars, trade shows, etc., in order to educate and assist customers in the safety, conservation and efficient use of electricity.
- ***Planning Is Vital To Achievement***
To achieve our objectives at BTES, it is necessary that we clearly understand our plans, objectives and strategies as we strive to maintain our excellence in service.
- ***Continuous Improvement Is The Key To Long-Term Success***
We must continually strive for excellence and quality in everything we do - in our workmanship and services, the appearance and safety of our workplace, human relations and our commitment to our community and ourselves.
- ***We Want To Earn And Deserve The Trust And Respect Of Our Customers***
The customer entrusts his family's welfare to us to provide his electrical power needs. He must have complete confidence in the quality service we provide and the people who work for us.
- ***A Positive Image Is A Valuable Asset***
We strongly believe in a professional image and we will strive to maintain such an image in the eyes of our customers, vendors and business associates to improve the quality of life in our community.

BTES SERVICE AREA



Substations Owned and Operated by BTES

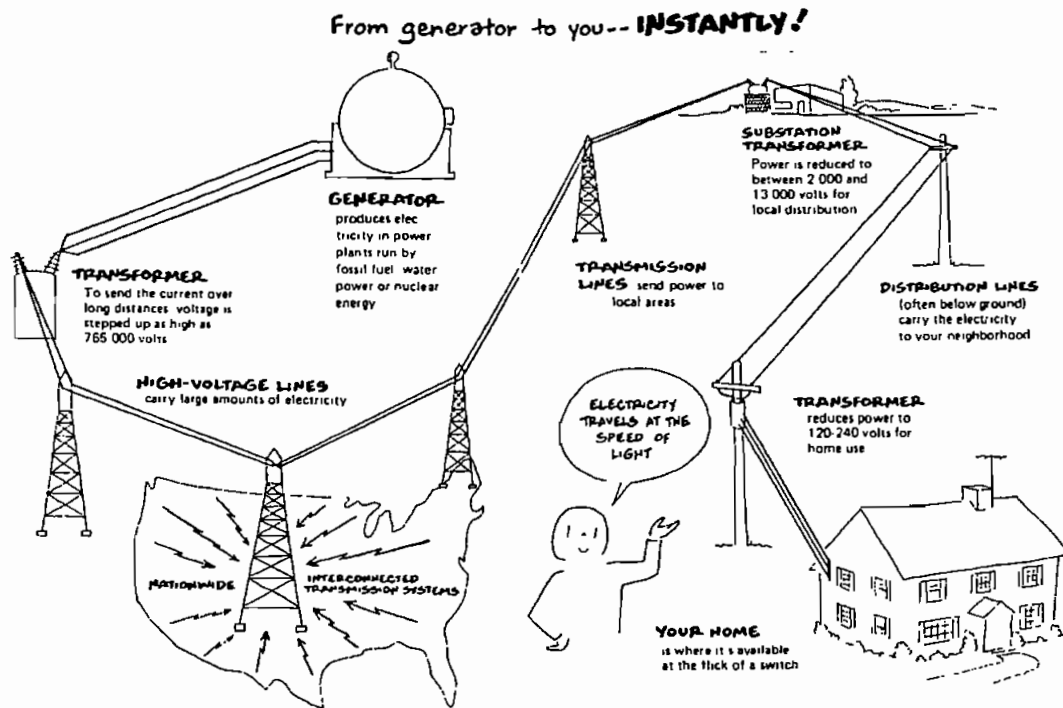
Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Piney Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthton	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

*Delivery Point from TVA

Substations In the 2005-2006 Work Plan

Rockhold	69/13 KV	20 MVA
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Electric Utility Terms



Air-Source Heat Pump - A system that can supply both space heating and cooling. In the heating cycle, the heat pump removes heat from the outside air and pumps it indoors. When cooling, the heat pump absorbs heat from the indoors and rejects it to the outside.

Ampere - Unit of measurement of electric current. It's proportional to the quantity of electrons flowing through a conductor past a given point in one second.

Base Load - The minimum load over a given period of time.

Blackout - A temporary loss of electricity in an area because of failure of generation or transmission equipment

Brownout - A voltage reduction during an electrical shortage that causes conditions such as dim lights

Bus - An electrical conductor which serves as a common connection for two or more electrical circuits

Capacity - The load for which a generating unit, generating station or other electrical apparatus is rated by the user or the manufacturer.

Circuit Breaker - A switch that opens an electric circuit when a short occurs.

Conductor - Any substance, usually metallic, that will carry electricity.

Degree Day - A unit measuring the extent to which the average daily temperature varies from a standard reference temperature. Based on a reference temperature of 65 degrees Fahrenheit, if the average temperature (high plus low divided by 2) for a day is 70, then there are five cooling degree days for that day. Likewise, if the average temperature was 60, then there were five heating degree days. This historical information can be used for forecasting system load and planning unit maintenance outages, to name a few.

Electric Utility Terms (continued)

Delivery Point - The point, usually a substation, to which electricity is transmitted from its generating sources

Demand - The rate at which electric energy is delivered to a system. The primary source of demand is the power consuming equipment of the customers.

Depreciation - Charges made against income to equitably distribute the cost of the decrease in plant value during the period when services are obtained from use of the facilities. The decrease in plant value is caused by wear, deterioration or obsolescence

Deregulation - Movement of an industry from one of monopolistic entities or environments to one free market enterprise, in the electric industry this involves elimination of service area and rate restrictions and obligation to serve, results in distributor choice of supplier and eventually customer choice of supplier

Dispatching - The control of an electric system involving switching substations, transmission/distribution lines and other equipment. Monitoring and operating the SCADA system. Dispatching crews for emergencies and maintaining a log of work locations and purpose for outside crews

Distribution System - A system that enables delivering electric energy at 2.4 kV to 25 kV from convenient points (substations) on the transmission system to the customers

Earth Coupled Heat Pump - An efficient electrical device that heats or cools by moving heat into or out of a building. It uses an antifreeze solution or refrigerant in a pipe buried in the ground to collect or disperse heat. Also called geothermal system, ground source heat pump or water source heat pump

Easement - A right obtained from property owners that allows utility companies to construct, operate, maintain, and control facilities such as transmission lines on the property.

Eminent Domain - The right of government to take, or to authorize the taking of, private property for public use, just compensation usually being given to the owner.

Electric Current - The flow of electric charge in a conductor between two points having a difference in potential, generally expressed in amperes.

Electric and Magnetic Fields (EMF) - Radiation surrounding conductors that carry electricity - present wherever electric power is being used.

Fault - A point of defect in an electric circuit that prevents the current from following the intended course.

Fiber Optic Cable - Cable capable of conducting modulated light transmission over a glass strand.

Fiber Optic System - A system which includes fiber optic cable plant, along with the necessary electronics, amplifiers, splitters, splice points and termination points to provide end-to-end communications and are capable of transporting voice, video and data over long distances.

Insulator - A non conductor, usually of glass or porcelain, for insulating and supporting electric wires

Kilowatt - The basic unit of electric demand, equal to 1,000 watts - average household demand is 10 to 20 kilowatts.

Electric Utility Terms (continued)

Kilowatt Hour - A unit of energy or work equal to 1,000 watt-hours. The basic measure of electric energy generation or use. A 100-watt light bulb burning for 10 hours uses one kilowatt hour.

Deregulation Dictionary

The following are terms that you may encounter when reading about upcoming deregulation in the electric utilities industry.

Access Charge - a charge levied on a power supplier, or its customer, for access to a utility's transmission or distribution system. It is a charge for the right to send electricity over another's wires.

Aggregator - an entity that combines the needs of several smaller customers into a larger block of power in order to get a better price.

Capacity - the amount of electricity for which a generating plant or transmission system is rated.

Commercial Customer - non-manufacturing business customer.

Customer Choice - allows retail customers to select the power supplier or generator they buy electricity from.

Demand - the amount of power a customer takes at a given moment.

Direct Access - the ability of an electric end-user to connect directly with a power supplier, thus bypassing its local utility.

Distribution System - local delivery system of electricity to the retail customer's home or business through distribution lines. BTES is a distribution system.

Electric Cooperative - a member-owned electric utility company that distributes electricity on a nonprofit basis. Example: Mountain Electric Cooperative.

Federal Energy Regulatory Commission (FERC) - the agency that has jurisdiction over natural gas pricing, hydroelectric licensing, oil pipeline rates and gas pipeline certification.

Generation Company (genco) - an entity that operates electricity-generating plants. The genco may own the generation plants or interact with short-term marketers on behalf of plant owners.

Independent Power Producer (IPP) - a private entity that generates electricity and sells it to other businesses, including utilities.

Independent System Operator (ISO) - the independent operator of a transmission system, responsible for guaranteeing open access, scheduling, system reliability and accounting.

Industrial Customer - business customer engaged in manufacturing.

Investor-owned Utility (IOU) - a stockholder-owned power company that generates and distributes electric energy for profit. Example: American Electric Power.

Municipal - electric distribution system owned by a city to provide service for its residents. Example: BTES.

Non-power Services - includes such services as gas, home security and telecommunications.

Power Marketer - an entity that provides bulk wholesale power for use at a specific place and time. The marketer may or may not generate the power. Example: Cinergy.

Regional Transmission Organization (RTO) - FERC Order 2000 requires all investor-owned utilities to consider joining a RTO.

Retail Wheeling - a system in which individual retail electric customers are allowed to choose their electric supplier. Also known as retail competition.

Deregulation Dictionary (continued)

Service Area - the geographic region that a utility is required to serve, or has the exclusive right to serve, in supplying electricity to the ultimate consumer.

Stranded Costs - costs of a utility that have already been legitimately and prudently incurred that are not economically viable in a competitive market

Tennessee Valley Authority - generation and transmission company supplying power to 158 electric utilities in a seven-state region including Tennessee

Transmission System - all the lines, poles and other equipment used to move bulk electricity from a generating plant to a distribution system.

Unbundling - separating the costs of operations of generation, transmission and distribution of electricity. An unbundled electric bill would list all costs associated with providing electricity to the consumer.

Wheeling - transmitting bulk electricity from a generating plant to a distribution system across a third system's lines

Wheeling Charge - an amount charged to an electric system by another for the transmission of energy to and from another system.

Wholesale Customer - a power purchaser that buys for resale to retail customers. Example BTES.

Source: Tennessee Magazine



Report of Independent Auditors

Power Board
Bristol Tennessee Essential Services

We have audited the accompanying balance sheets of Bristol Tennessee Essential Services ("BTES"), formerly Bristol Tennessee Electric System, an enterprise fund of the City of Bristol, Tennessee, as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BTES' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only BTES and are not intended to present fairly the financial position and results of operations of the City of Bristol, Tennessee, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bristol Tennessee Essential Services at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28 2005, on our consideration of BTES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Power Board
Bristol Tennessee Essential Services

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by generally accepted accounting principles in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the introductory and statistical sections of the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of BTES. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Coulter & Justus, P.C.

September 28, 2005

Bristol Tennessee Essential Services Management's Discussion and Analysis

June 30, 2005

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. This section will provide narrative discussion and analysis of the financial activities of BTES. The financial performance of BTES is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The Introductory Section covers management's letter of transmittal and other BTES information.

Financial Statement Overview

The financial statements herein are comprised of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying Notes to Financial Statements.

BTES is a self-supporting enterprise of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935. BTES issues a comprehensive annual financial report which is incorporated in the City's comprehensive annual financial report.

Operating Highlights

Net Assets and Capital Assets

As indicated in Table 1, net assets were \$61,487,547 in 2005, compared to \$58,411,545 in 2004, and \$56,753,318 in 2003. Approximately 55% of the 2005 net assets are invested in capital assets. All remaining net assets are unrestricted and can be used for on-going operations of BTES, although the Power Board has established a renewal and replacement fund totaling \$8,000,000 for future construction, improvements and extensions of BTES.

Table 1

Bristol Tennessee Essential Services Condensed Balance Sheets			
June 30,			
	2005	2004	2003
Current and other assets	\$ 35,969,356	\$ 33,241,589	\$ 31,790,663
Capital assets	34,025,791	31,895,221	31,567,958
Total assets	69,995,147	65,136,810	63,358,621
Current liabilities	8,507,600	6,725,265	6,605,303
Total liabilities	8,507,600	6,725,265	6,605,303
Net assets			
Invested in capital assets	34,025,791	31,895,221	31,567,958
Unrestricted	27,461,756	26,516,324	25,185,360
Total net assets	\$ 61,487,547	\$ 58,411,545	\$ 56,753,318

Management's Discussion and Analysis (continued)

As indicated in Table 2, during the year gross capital assets increased by \$4,089,772 or 5.9%. BTES continues the installation of the fiber optic cable system in order to establish a communication link with all substations. Note in Table 3 that the increase in utility plant in 2005 was 1.4% as compared to 3.1% in 2004. Refer to the notes of the audited financial statements for more information regarding capital assets.

Table 2

Bristol Tennessee Essential Services – Capital Assets				
	June 30 2005	Net of Accumulated Depreciation	June 30 2004	Net of Accumulated Depreciation
Transmission Plant				
Land and land rights	\$ 94,696	\$ 94,696	\$ 94,696	\$ 94,696
Station equipment	2,823,269	1,561,210	2,823,269	1,674,028
Total Transmission Plant	2,917,965	1,655,906	2,917,965	1,768,724
Distribution Plant				
Land & land rights	855,111	855,111	855,111	855,111
Structures & improvements	857,291	216,270	857,291	244,142
Station equipment	11,333,797	3,219,139	11,235,683	3,347,045
Poles, towers, and fixtures	12,004,452	4,343,974	11,904,362	4,672,130
Overhead conductors and devices	6,635,842	3,350,465	6,730,393	3,641,857
Underground conduit	1,081,141	362,946	1,072,978	376,256
Underground conductors and devices	3,358,563	801,055	3,293,308	861,978
Line transformers	11,223,128	5,731,896	10,926,265	5,707,588
Services	2,893,745	1,020,759	2,835,857	1,044,636
Meters	2,689,971	1,288,245	2,611,145	1,289,187
Installation on customers' premises	959,302	(8,419)	949,629	45,575
Street lighting and signal systems	2,895,667	534,152	2,876,321	691,620
Total Distribution Plant	56,788,010	21,715,593	56,148,343	22,777,125
General Plant				
Land and land rights	101,831	101,831	101,831	101,831
Structures and Improvements	1,158,943	601,550	1,158,943	609,780
Office Furniture and Equipment	387,411	155,223	387,411	161,580
Transportation Equipment	1,947,756	482,226	1,772,700	355,240
Stores Equipment	24,143	6,765	24,143	8,000
Tools, shop, and garage equipments	131,389	10,132	131,389	10,133
Laboratory equipment	104,035	5,965	104,035	5,965
Power operated equipment	104,946	10,204	104,946	11,435
Communication equipment	494,085	297,388	461,658	295,024
Miscellaneous equipment	43,407	3,652	43,408	3,652
Total General Plant	4,497,946	1,674,936	4,240,464	1,562,640
Total Utility Plant in Service	64,203,920	25,046,435	63,306,772	26,108,489
Construction work in progress	8,004,376	8,004,376	4,710,427	4,710,427
Non-utility property	974,980	974,980	1,076,305	1,076,305
Total Capital Assets All Sources	\$ 73,183,276	\$ 34,025,791	\$ 69,093,504	\$ 31,895,221

Management's Discussion and Analysis (continued)

Table 3

Bristol Tennessee Essential Services Changes to Utility Plant in Service Years ended June 30,			
	2005		2004
Utility plant in service beginning	\$ 63,306,772	\$	61,380,163
Increases	1,064,022		2,998,387
Decreases	166,875		1,071,778
Utility plant in service ending	\$ 64,203,919	\$	63,306,772

Note Utility plant in service does not include non-utility property or construction work in progress

Results of Operations

As indicated in Table 4, net assets of BTES increased by \$3,076,002 from fiscal year 2004 to 2005 and increased by \$1,658,227 from fiscal year 2003 to 2004. Operating revenues were principally derived from retail sales of electricity. Operating revenues were \$57,323,729 in 2005 as compared to \$57,758,354 in 2004, and \$53,346,617 in 2003; resulting in a 0.8% decrease from 2004 to 2005 and an 8.3% increase from 2003 to 2004. Temperature throughout the year has historically been a main driver of electric sales. However, in October 2003 a rate increase of approximately 6% for residential customers and 7% for small general power took effect. Operating revenues are characterized in four major customer class types: residential, commercial, industrial and street and outdoor lighting, plus other revenue. The percentage of total operating revenue by category has stayed consistent from 2003 to 2005 See Figures 1, 2 and 3. As shown in Table 4, the internal tax equivalent payments made to the City of Bristol, Tennessee are reported as transfers.

Table 4

Bristol Tennessee Essential Services Condensed Statement of Revenues, Expenses and Changes in Net Assets Years ended June 30,			
	2005	2004	2003
Revenues			
Operating revenues	\$ 57,323,729	\$ 57,758,354	\$ 53,346,617
Non-operating revenues	892,961	628,270	586,380
Total Revenues	58,216,690	58,386,624	53,932,997
Expenses			
Purchased power	47,006,165	48,328,235	44,700,229
Operation expenses	2,829,462	2,742,670	2,599,092
Maintenance	2,559,977	2,634,557	2,532,830
Depreciation	1,937,812	1,897,728	1,960,025
Tax equivalents	214,494	212,113	205,435
Social security taxes	224,130	206,462	213,225
Interest exp on customer deposits	7,502	6,612	6,409
Total Expenses	54,779,542	56,028,377	52,217,245
Transfers out – tax equivalents to City of Bristol	(361,146)	(700,020)	(605,858)
Changes in Net Assets	3,076,002	1,658,227	1,109,894
Beginning net assets	58,411,545	56,753,318	55,643,424
Ending net assets	\$ 61,487,547	\$ 58,411,545	\$ 56,753,318

Management's Discussion and Analysis (continued)

Figure 1

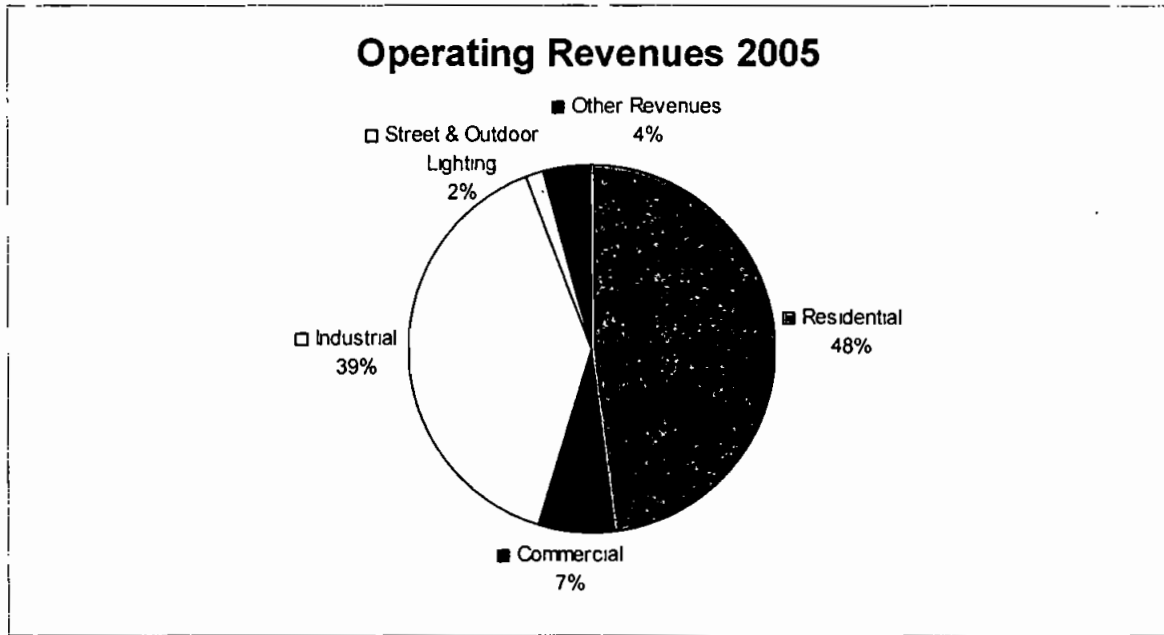
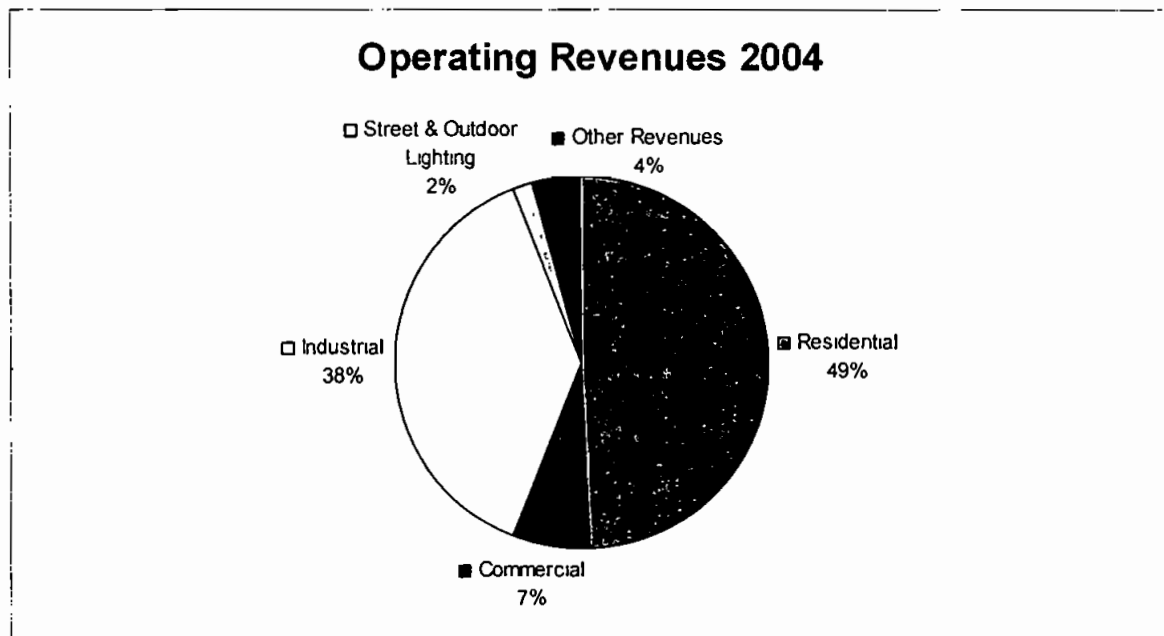
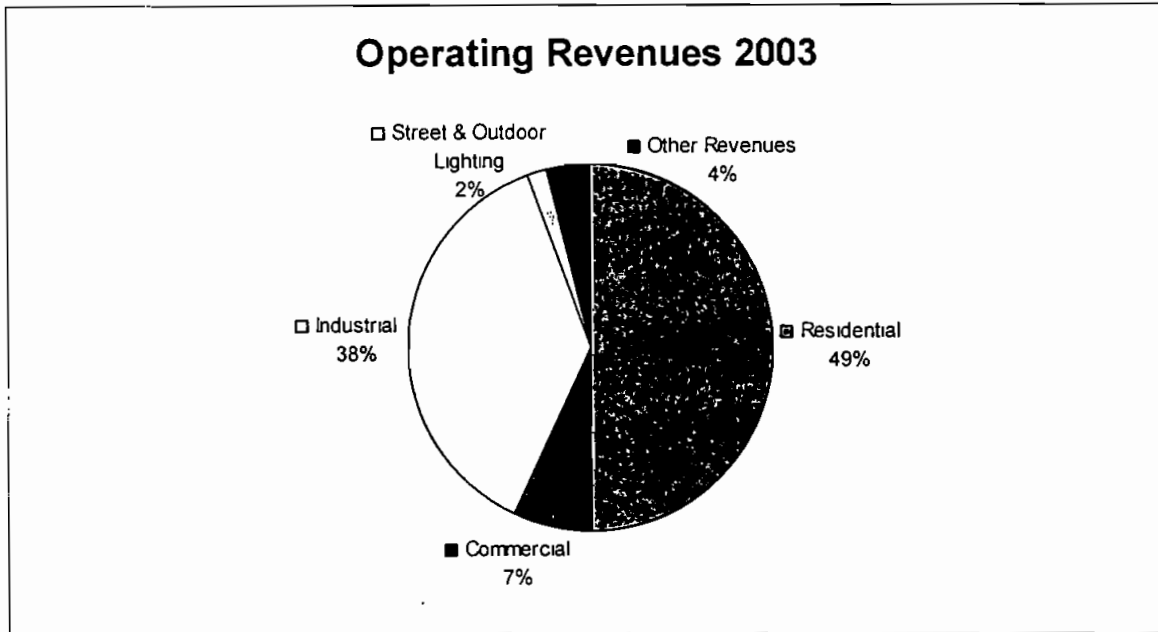


Figure 2



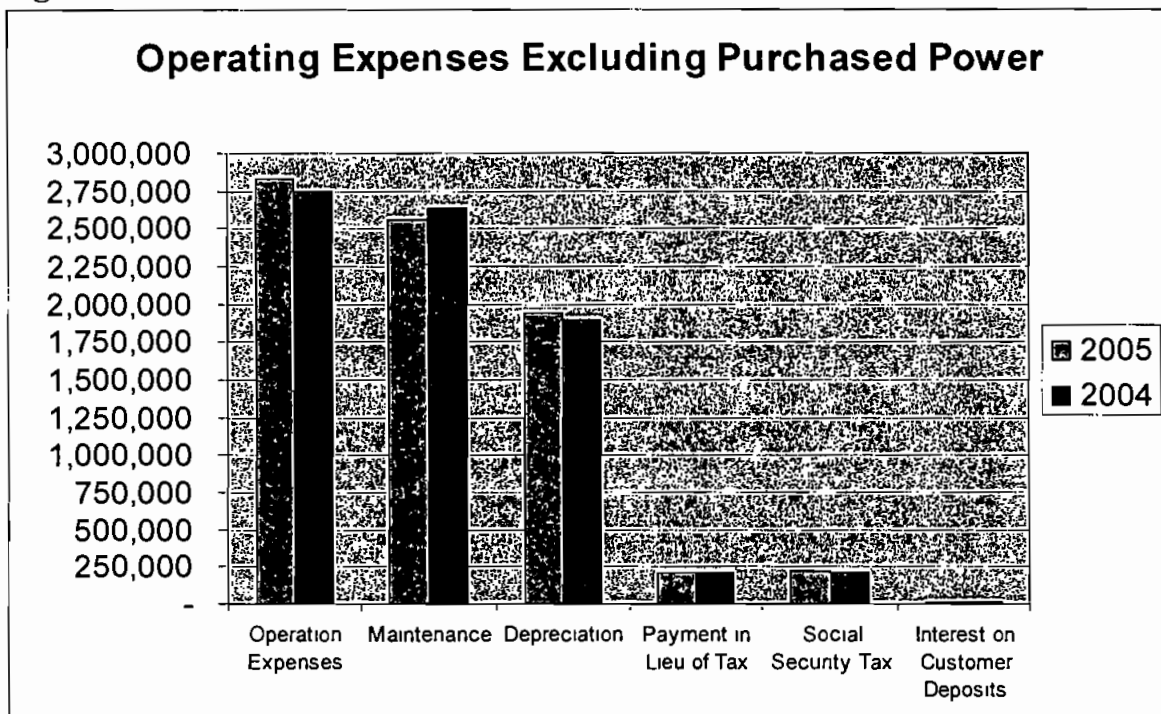
Management's Discussion and Analysis (continued)

Figure 3



Operating expenses, not including purchased power, increased from 2004 to 2005, as indicated in Figure 4. The total was \$7,773,377 in 2005 compared to \$7,700,142 in 2004, resulting in a 1.0% increase.

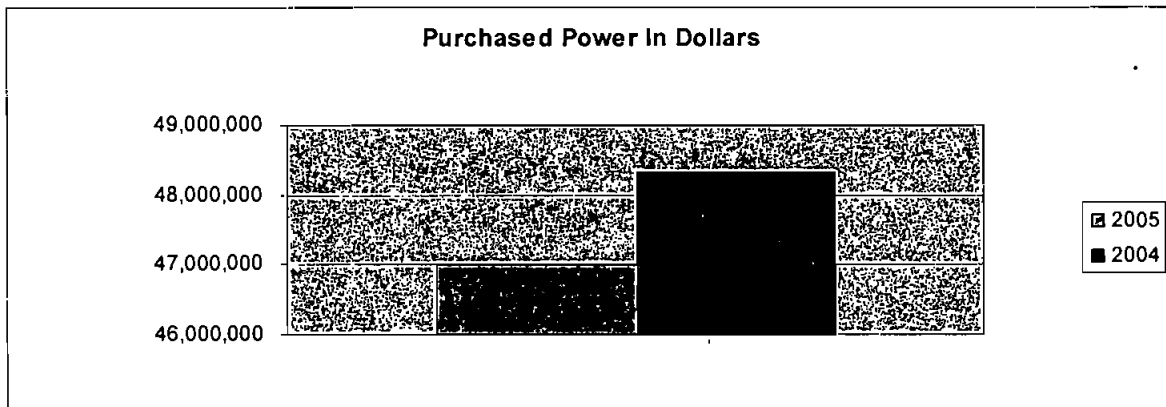
Figure 4



Management's Discussion and Analysis (continued)

As indicated in Figure 5, purchased power costs were \$47,006,165 in 2005 as compared to \$48,328,235 in 2004, resulting in a 2.7% decrease. The correlation between electric sales and purchased power and weather is clearly shown as discussed on page 5. Temperature is a main driver.

Figure 5



Power Rates

BTES purchases its entire year power supply requirements from Tennessee Valley Authority ("TVA"). Rate options available to BTES' retail customers include firm, seasonal and interruptible service rates. The contract between TVA and BTES provides for TVA regulation over retail rates to customers. The interruptible rate programs provide large commercial and industrial customers with the potential for reduced rates along with the right for TVA to interrupt service as needed.

There are four customers participating in interruptible rate programs with a combined interruptible load of 31,017 kilowatts or about 10% of BTES' 2005 peak load. TVA's last curtailment of interruptible customers occurred in January 2004. Rate surveys show that BTES' rates are some of the most competitive in the U.S.

Deregulation

Over the last few years, Congress has been debating legislation to restructure the electric utility industry. Because of TVA's unique situation, deregulation and competition at both national and state levels are moving more slowly to the Tennessee Valley. Under the existing law, TVA is the exclusive supplier of power within its statutorily defined service territory, an 80,000 square-mile area that includes virtually the entire state of Tennessee and parts of Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia. BTES is shielded from competition until federal restructuring addresses the current law. BTES continues to be involved in the restructuring effort individually and also as a member of the Tennessee Valley Public Power Association, the American Public Power Association, Tennessee Municipal Electric Power Association and the State of Tennessee Legislature.

Management's Discussion and Analysis (continued)

Debt

BTES does not have bonds or notes payable for the years ended June 30, 2005 and June 30, 2004. On July 27, 2005, BTES issued \$23,910,000 in Electric System Revenue Bonds, Series 2005 for the purpose of financing improvements to BTES' electric system and pre-purchasing electrical power from TVA. The bonds are limited obligations of BTES payable solely from the net revenues of BTES' electric system. BTES posts interest on customer deposits on a monthly basis. The interest rate is based on the passbook savings account at local financial institutions and is reviewed from time to time. The annual interest rate for deposits was 0.6% as of June 30, 2005. The interest paid was \$7,502 for the year ended June 30, 2005 and \$6,612 for the year ended June 30, 2004. As shown in Figure 3, interest on deposits is insignificant compared to total operating expenses.

Payment In Lieu of Taxes

BTES makes an in-lieu-of-tax payment to the municipalities and counties in which it sells power and has electric utility plant. For the City of Bristol, Tennessee, City of Bluff City, Tennessee and Sullivan County, Tennessee, the in-lieu-of-tax payment is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). For Washington County, Virginia the in-lieu-of-tax payment is based on the real property tax rate of the electric utility plant. The total in lieu of taxes paid during the years ended June 30, 2005 and 2004 were approximately \$573,000 and \$910,000, respectively.

Non-Operating Revenue

Interest from investments increased from \$628,270 in 2004 to \$892,961 in 2005, resulting in an approximate 42% increase. This is due primarily to imputed interest rates in 2005. As shown in Table 4, interest from investments is categorized as non-operating revenue. BTES continues to look for ways to maximize their earnings, such as the TVA's Discounted Energy Units Program discussed below.

Discounted Energy Units (DEU) Program

BTES invested \$8,000,000 in TVA's Discounted Energy Units ("DEU") Program in December 2003. The goal of the DEU Program is to create a financial partnership between TVA and its distributors, such as BTES, to help finance the re-start of the Browns Ferry Unit One power generator. This facility uses nuclear fuel to generate electricity. The potential benefits for BTES are to ensure a reliable, low-cost power supply and provide a vehicle to better use operating cash and improve working capital liquidity. This program provides BTES discounted monthly electric purchases that are equal to the monthly principle and interest payments. The discount rate is 5.5% and has a term of 10 years. BTES may borrow against part of the DEU investment in emergency situations, if needed. During 2005 and 2004, BTES recognized \$372,347 and \$408,204, respectively, in interest income from the amortization of the DEU's which is included in non-operating revenues discussed above.

Commitments

BTES has commitments for projects outstanding in the amount of approximately of \$16,594,000 as of June 30, 2005.

Bristol Tennessee Essential Services

Balance Sheets

June 30, 2005 and 2004

	June 30	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,393,582	\$ 6,177,910
Accounts receivable:		
Trade	3,006,812	3,379,310
Other	992,774	379,053
Total accounts receivable	3,999,586	3,758,363
Accrual for unbilled revenues	2,803,538	2,918,421
Materials and supplies inventories	881,205	601,047
Prepaid power purchased from Tennessee Valley Authority	3,093,653	942,840
Current portion of customer notes receivable	456,000	675,000
Current portion of discounted energy units	709,532	671,653
Prepaid expenses and other current assets	152,105	183,141
Total current assets	19,489,201	15,928,375
Noncurrent assets:		
Capital assets:		
Capital assets in service	64,203,920	63,306,772
Less accumulated depreciation	(39,157,485)	(37,198,283)
	25,046,435	26,108,489
Construction in progress	8,004,376	4,710,427
Non-utility property	974,980	1,076,305
Net capital assets	34,025,791	31,895,221
Other assets:		
Customer notes receivable, less current portion	1,945,953	2,104,136
Long-term investments	8,000,000	8,000,000
Prepaid pension cost	730,569	791,151
Discounted energy units, less current portion	5,694,839	6,404,371
Other	108,794	13,556
Total other assets	16,480,155	17,313,214
Total noncurrent assets	50,505,946	49,208,435
Total assets	\$69,995,147	\$65,136,810

Bristol Tennessee Essential Services

Balance Sheets (continued)

June 30, 2005 and 2004

	June 30	
	2005	2004
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 2,429,452	\$ 526,601
Accrual for unbilled power expense	2,382,801	2,510,084
Customer deposits and prepayments	2,029,920	1,943,072
Due to City of Bristol, Tennessee.		
Economic development funds passed through		
from Tennessee Valley Authority	824,042	811,039
Other	—	56,618
Other accrued liabilities	841,385	877,851
Total current liabilities	8,507,600	6,725,265
Net assets:		
Invested in capital assets	34,025,791	31,895,221
Unrestricted	27,461,756	26,516,324
Total net assets	61,487,547	58,411,545

Total liabilities and net assets

<u>\$69,995,147</u>	<u>\$65,136,810</u>
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See accompanying Notes to Financial Statements.

Bristol Tennessee Essential Services
Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2005 and 2004

	Year ended June 30	
	2005	2004
Operating revenues:		
Residential	\$27,474,740	\$28,368,050
Commercial (general power - under 50 kw)	3,935,881	3,887,931
Industrial (general power - 50 kw and over)	22,523,896	22,143,093
Street and outdoor lighting	964,844	911,629
	<u>54,899,361</u>	<u>55,310,703</u>
Other revenues	2,424,368	2,447,651
Total operating revenues	<u>57,323,729</u>	<u>57,758,354</u>
Power purchased from Tennessee Valley Authority	47,006,165	48,328,235
Gross profit	<u>10,317,564</u>	<u>9,430,119</u>
Operating expenses:		
Operation expenses	2,829,462	2,742,670
Maintenance	2,559,977	2,634,557
Depreciation	1,937,812	1,897,728
Tax equivalents	214,494	212,113
Social security taxes	224,130	206,462
Interest expense on customer deposits	7,502	6,612
Total operating expenses	<u>7,773,377</u>	<u>7,700,142</u>
Operating income	<u>2,544,187</u>	<u>1,729,977</u>
Nonoperating revenue--interest income (including \$372,347 in 2005 and \$408,204 in 2004 related to amortization of discounted energy units)	<u>892,961</u>	<u>628,270</u>
Income before transfers	<u>3,437,148</u>	<u>2,358,247</u>
Transfers out--tax equivalents to the City of Bristol, Tennessee	<u>(361,146)</u>	<u>(700,020)</u>
Change in net assets	<u>3,076,002</u>	<u>1,658,227</u>
Net assets at beginning of year	<u>58,411,545</u>	<u>56,753,318</u>
Net assets at end of year	<u><u>\$61,487,547</u></u>	<u><u>\$58,411,545</u></u>

See accompanying Notes to Financial Statements

Bristol Tennessee Essential Services

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	Year ended June 30	
	2005	2004
Cash flows from operating activities		
Cash received from customers	\$56,052,112	\$54,322,743
Cash received from City of Bristol, Tennessee	1,360,803	1,901,676
Cash paid to suppliers and vendors	(50,444,478)	(50,584,494)
Cash paid to employees for services	(3,017,231)	(2,834,374)
Cash paid to City of Bristol, Tennessee	(10,685)	(46,904)
Net cash provided by operating activities	3,940,521	2,758,647
Cash flows from noncapital financing activities		
Transfers to City of Bristol, Tennessee	(361,146)	(700,020)
Cash flows from investing activities		
Interest received on investments	520,614	220,066
Cash flows from capital and related financing activities		
Net additions to capital assets	(2,884,317)	(2,314,587)
Increase (decrease) in cash and cash equivalents	1,215,672	(35,894)
Cash and cash equivalents at beginning of year	6,177,910	6,213,804
Cash and cash equivalents at end of year	\$7,393,582	\$ 6,177,910

Bristol Tennessee Essential Services
Statements of Cash Flows (continued)
Years ended June 30, 2005 and 2004

	Year ended June 30	
	2005	2004
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,544,187	\$ 1,729,977
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,937,812	1,987,324
Provision for losses on accounts receivable	248,505	124,038
Redemption of discounted energy units	1,044,000	1,044,000
Changes in operating assets and liabilities:		
Accounts receivable	(489,728)	(1,075,256)
Accrual for unbilled revenues	114,883	(802,036)
Prepaid power purchased from Tennessee Valley Authority	(2,150,813)	(942,840)
Materials and supplies inventories	(280,158)	67,598
Customer notes receivable	377,183	174,327
Prepaid pension cost	60,582	141,926
Other assets	(64,202)	189,627
Trade accounts payable	718,786	(617,043)
Due to City of Bristol, Tennessee	(43,615)	(76,354)
Unbilled power expense	(127,283)	647,763
Customer deposits and prepayments	86,848	169,030
Other liabilities	(36,466)	(3,434)
Net cash provided by operating activities	<u>\$ 3,940,521</u>	<u>\$2,758,647</u>

Supplemental disclosure of noncash activities

Accounts payable at June 30, 2005 included \$1,184,065 in construction in progress

See accompanying Notes to Financial Statements

Bristol Tennessee Essential Services

Notes to Financial Statements

June 30, 2005 and 2004

1. Significant Accounting Policies

General

The Bristol Tennessee Essential Services ("BTES"), formerly Bristol Tennessee Electric System, is a self-supporting enterprise fund of the City of Bristol, Tennessee (the "City"). The City is the primary reporting entity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Power Board of BTES is the level of responsibility that has oversight and control of BTES. The Power Board sets all policies, local rates and appoints the General Manager. The Power Board is composed of five members, one of whom is also a member of the City Council, who are appointed by the mayor and confirmed by the City Council. They serve four-year staggered terms. BTES manages, operates and maintains the electric utility servicing the citizens of the City and surrounding areas. BTES issues a comprehensive annual financial report which is combined in the City's comprehensive annual financial report.

During 2005, the Power Board resolved for BTES to also provide internet and cable services and possible future telephone services to their existing customer base. Accordingly, BTES created three business units within the enterprise fund to account for the utility operations in the Electric Business Unit ("EBU"), the cable and internet operations in the Cable and Internet Business Unit ("CBU"), and telephone operations in the Telephone Business Unit ("TBU").

As required by Section 7-52-603 of the Tennessee Code Annotated ("TCA"), the EBU may not subsidize the operations of the CBU with revenue from its power operations. In addition, the CBU must maintain its own accounting records and any funds that are lent from the EBU must have a rate of interest, not less than the highest rate earned by the EBU on investment funds. See Note 15 for further discussion of the CBU.

BTES has filed with the Tennessee Regulatory Authority for authorization to provide telecommunication services as per Section 7-52-401 of the TCA. The TBU currently has no operations.

The industries that CBU and TCU are entering into are regulated by the Federal Communications Commission.

BTES utilizes the accrual basis of accounting whereby revenues are recorded in the period the related services are provided, and expenses are recorded in the period incurred. Accordingly, BTES has recorded an estimate of unbilled revenue and unbilled power expense. BTES considers all revenues and expenses to be operating, except for interest income which is classified as nonoperating.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

1. Significant Accounting Policies (continued)

General (continued)

BTES applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements, in which case, GASB prevails. BTES has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting".

BTES applies the provisions GASB No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments" ("Statement 34"), as amended by GASB No. 37, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Government: Omnibus" ("Statement 37"). Statements 34 and 37 established standards for external financial reporting and disclosure for all state and local governmental entities, which includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted or "invested in capital assets, net of related debt "

As of June 30, 2005 and 2004, BTES has no outstanding debt related to the acquisition, construction or improvement of capital assets nor does it have any assets restricted via constraints. Accordingly, BTES net assets are categorized as invested in capital assets and unrestricted. The unrestricted category includes a renewal and replacement fund of \$8,000,000 which was established by the Power Board to set aside funds for future construction, improvements and extensions of BTES

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

1. Significant Accounting Policies (continued)

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. BTES operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

Fiscal Year-End

BTES operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Materials and Supplies Inventories

Materials and supplies are valued at the lower of cost or market, utilizing the moving average method of determining cost.

Capital Assets

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. Substantially all renewals and betterments are capitalized in accordance with BTES' capitalization policy. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized.

Capital assets other than land, construction in progress and non-utility property, are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of depreciable capital assets are as follows:

Transmission equipment, fixtures and devices	30 to 40 years
Distribution transformers, meters, fixtures and devices	15 to 50 years
Buildings and improvements	50 years
Furniture, fixtures and equipment	5 to 25 years

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets and totaled \$98,070 in 2005 and \$89,596 in 2004. The cost of maintenance and repairs is charged to expense as incurred.

Investments

Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

1. Significant Accounting Policies (continued)

Compensated Absences

BTES recognizes the cost of vacation pay as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include cash on hand and in demand deposits, and those investments which are generally a part of BTES short-term cash management activities. State statutes authorize BTES to invest in certificates of deposit, U.S. Treasury obligations, U.S. Agency issues and the State Local Government Investment Pool.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

2. Power Contract

BTES has a power contract with the Tennessee Valley Authority ("TVA") whereby BTES purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. Either party may terminate this contract at any time upon not less than five years prior written notice.

3. Residential Energy Efficiency Program Loans

BTES provides loans to customers for heat pump and insulation costs under BTES Residential Energy Efficiency Program. The majority of these loans bears interest at rates ranging from 8% to 10.25% and has maturities of up to 10 years. Satisfactory credit reports are required prior to loan approval. Additionally, these loans are secured by a deed of trust on the property. BTES recorded interest income of approximately \$257,000 in 2005 and \$237,000 in 2004 related to these loans. These amounts offset operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets, since management believes this is an operating activity and the income should offset the additional expenses associated with maintaining this loan program.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

4. Concentration of Credit Risk

BTES provides electric service primarily to customers in northeastern Tennessee. Customers include residential and industrial service. Residential customers are required to have satisfactory credit reports or place deposits with BTES that approximate two month's account balance. Industrial customers are generally required to either place deposits with BTES that approximate two month's account balance or obtain a letter of credit or surety bond as security. Interest accrues on any deposits at the passbook interest rate of the bank where the funds are deposited and totaled \$7,502 in 2005 and \$6,611 in 2004. BTES also makes and services loans to customers for heat pump and insulation costs. A subordinate deed of trust is obtained on the related property for these loans. Loss experience on accounts and notes receivable has not been significant to BTES operations.

5. Pension Plan

Plan Description

Certain employees of BTES are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining BTES after July 1, 1979, become vested after 5 years of service and members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as BTES participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at www.treasury.state.tn.us.

Funding Policy

BTES requires employees to contribute 5% of earnable compensation.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

5. Pension Plan (continued)

Funding Policy (continued)

BTES is required to contribute at an actuarially determined rate using the frozen entry age actuarial cost method; the rates for 2005 and 2004 were 11.23% and 5.44%, respectively, of annual covered payroll. The 2005 required contributions were determined as part of the July 1, 2003 actuarial valuation. The 2004 required contributions were determined as part of the July 1, 2001 actuarial valuation. The contribution requirements for plan members are set by state statute. The contribution requirements for BTES are established and may be amended by the TCRS Board of Trustees.

Prepaid Pension Cost

GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers", requires employers to record contributions to a pension plan in excess of the annual pension cost as an asset. BTES has previously contributed amounts in excess of the annual pension cost to the PSPP and recorded these amounts as a prepaid pension cost. Activity in the prepaid pension cost is as follows for the years ended June 30:

	2005	2004
Balance at beginning of year	\$791,151	\$933,077
Annual pension cost:		
Annual required contribution	332,686	148,723
Interest on prepaid pension cost	(59,336)	(63,238)
Adjustment to the annual required contribution	119,918	205,164
Total annual pension cost	393,268	290,649
Contributions made	332,686	148,723
Decrease in prepaid pension cost	(60,582)	(141,926)
Balance at end of year	\$730,569	\$791,151

Actuarial Assumptions

Significant actuarial assumptions used in the July 1, 2003 and 2001, valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base and (d) projected post-retirement increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of total investments over a five-year period. BTES' unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 12 years.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

5. Pension Plan (continued)

Trend Information

<u>Year ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Cost</u>
2005	\$393,268	84.6%	\$730,569
2004	290,649	51.2%	791,151
2003	152,248	100.0%	933,077

Required Supplementary Information

Schedule of Funding Progress (Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/01/03	\$11,831	\$12,907	\$1,076	91.66%	\$2,584	41.64%
7/01/01	11,492	12,584	1,092	91.32%	2,465	44.30%
7/01/99	10,589	11,083	494	95.54%	2,317	21.32%

6. 401(k) Retirement Plan

BTES administers a defined contribution plan in the form of a 401(k) plan (Bristol Tennessee Electric System 401(k) Retirement Plan) available to all employees who have completed six months of employment. During 2005, the amount of payroll covered by the plan was \$2,643,012 of total payroll of \$2,941,973. During 2004, the amount of payroll covered by the plan was \$2,495,331 of total payroll of \$2,771,405. Under the plan terms, BTES will match participant contributions up to 6% of the participant's salary. Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

Additionally, participants may contribute up to 10% of their after-tax earnings. Participants are 100% vested in the employer contributions when they are made. During 2005 and 2004, BTES contributed \$150,528 and \$138,682, respectively, to the plan which represents 5.7% and 5.6%, respectively, of the covered payroll and 100% of the required contribution for each year. During 2005 and 2004, the participants contributed \$204,321 and \$185,780, respectively, which represents 7.7% and 7.5%, respectively, of the covered payroll.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

7. Capital Assets

The following is a summary of capital assets for the year ended June 30, 2005:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated				
Land	\$1,051,638	\$ —	\$ —	\$ 1,051,638
Non-utility property	1,076,305	—	(101,325)	974,980
Construction in progress	4,710,427	4,654,179	(1,360,230)	8,004,376
Total capital assets not being depreciated	6,838,370	4,654,179	(1,461,555)	10,030,994
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,822,620	—	—	2,822,620
Distribution transformers, meters, fixtures and devices	54,436,589	806,540	(166,875)	55,076,254
Buildings and improvements	2,016,234	—	—	2,016,234
Furniture, fixtures and equipment	2,979,691	257,483	—	3,237,174
Total capital assets being depreciated	62,255,134	1,064,023	(166,875)	63,152,282
Less accumulated depreciation				
Transmission equipment, fixtures and devices				
Distribution transformers, meters, fixtures and devices	(1,149,241)	(112,818)	—	(1,262,059)
Buildings and improvements	(32,129,729)	(1,750,005)	76,680	(33,803,054)
Furniture, fixtures and equipment	(1,790,653)	(36,103)	—	(1,826,756)
Total accumulated depreciation	(2,128,660)	(136,956)	—	(2,265,616)
Total accumulated depreciation	(37,198,283)	(2,035,882)	76,680	(39,157,485)
Net capital assets being depreciated	25,056,851	(971,859)	(90,195)	23,994,797
Total net capital assets	\$31,895,221	\$3,682,320	\$(1,551,750)	\$34,025,791

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

8. Cash and Investments

Cash and investments consist of the following as of June 30, 2005:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund				
Certificate of deposit	\$ 2,000,000	2.90%	4/01/05	7/01/05
Certificate of deposit	2,000,000	3.00%	4/16/05	7/16/05
Certificate of deposit	2,000,000	3.10%	5/30/05	7/31/05
Certificate of deposit	2,000,000	3.10%	5/30/05	7/31/05
Total renewal and replacement fund	<u>8,000,000</u>			
Other funds:				
Certificate of deposit	3,114,639	2.90%	5/30/05	6/30/05
Certificate of deposit	500,000	3.06%	6/09/05	7/09/05
Business money market account	2,356,853	2.84%	-	-
Cash on deposit	1,422,090	Various		
Total other funds	<u>7,393,582</u>			
Total cash and investments	<u>\$15,393,582</u>			

Cash and investments consist of the following as of June 30, 2004:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 2,000,000	1.71%	4/01/04	4/15/05
Certificate of deposit	2,000,000	1.51%	1/16/04	7/16/04
Certificate of deposit	2,000,000	1.40%	4/30/04	7/30/04
Business money market account	2,000,000	1.40%	4/30/04	7/30/04
Total renewal and replacement fund	<u>8,000,000</u>			
Other funds:				
Certificate of deposit	3,050,090	1.46%	1/30/04	7/30/04
Certificate of deposit	500,000	1.75%	6/23/04	12/23/04
Business money market account	2,256,005	1.29%	-	-
Cash on deposit	371,815	Various		
Total other funds	<u>6,177,910</u>			
Total cash and investments	<u>\$14,177,910</u>			

As of June 30, 2005, BTES deposits in financial institutions (including certificates of deposit) of \$15,553,122 were entirely insured or collateralized with securities held by BTES agent in BTES' name. Carrying amounts differ from financial institution balances primarily due to outstanding checks and deposits in transit.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

8. Cash and Investments (continued)

Purchases of certificates of deposit in the renewal and replacement fund totaled \$20,524,000 in 2005 and \$14,200,000 in 2004. Sales of certificates of deposit in the renewal and replacement fund totaled \$20,524,000 in 2005 and \$14,200,000 in 2004.

9. Discounted Energy Units

During 2003, BTES purchased \$8,000,000 in discounted energy units from TVA which are redeemable on a straight-line basis over the next ten years. The units carry a discount of 5.5% and amounted to \$6,404,371 and \$7,076,024 as of June 30, 2005 and 2004, respectively.

10. Self-Insurance Plan

BTES is self-insured for employee group health benefits. A liability is recorded for those claims incurred but not paid prior to year-end, both reported and unreported, based on prior experience and claims reported subsequent to year-end. Changes in estimates for claims incurred but not reported are recorded in the year the estimates are revised. BTES risk is \$30,000 per covered employee up to an annual maximum of \$315,779. An insurance company has insured all claims exceeding \$315,779.

Activity in the estimated liability for claims incurred but not paid is as follows for the years ended June 30:

	2005	2004
Balance at beginning of year	\$ -	\$ -
Expense recorded related to:		
Current year	200,209	193,630
Prior year	86,488	41,073
Net expense recorded	286,697	234,703
Payments related to:		
Current year	200,081	200,913
Prior year	86,616	33,790
Total payments	286,697	234,703
Balance at end of year	\$ -	\$ -

11. Risk Management

BTES is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which BTES carries commercial insurance purchased from independent third parties. BTES has not experienced a settlement in excess of insurance coverage in any of the past three fiscal years. BTES bears the risk of loss up to the deductible amounts which are disclosed in the accompanying Statistical Section.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

12. Related Party Transactions

As described in Note 1, BTES is a self-supporting fund of the City. In the normal course of operations, BTES provides electrical service to the City at standard electric rates which generated revenues of \$1,356,140 in 2005 and \$1,894,211 in 2004. As of June 30, 2005 and 2004, \$103,671 and \$88,431, respectively, was recorded as a receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

During 1997, BTES received \$2,000,000 in purchased power credits from TVA for investments related to economic development of the City. At the City's request, BTES remits these funds to the City. Remaining activity related to these funds is as follows for the years ended June 30:

	2005	2004
Balance at beginning of year	\$811,039	\$944,011
Interest accruals	13,003	9,748
Payments remitted to City	—	(142,720)
Balance at end of year	<u>\$824,042</u>	<u>\$811,039</u>

Interest accruals are netted against interest income in the accompanying financial statements.

BTES made tax equivalent payments to the City of \$361,146 in 2005 and \$700,020 in 2004. During July 2005, BTES made an additional tax equivalent payment to the City of \$361,146. These payments are based on BTES capital assets, along with average operating revenues less power costs.

13. Postemployment Benefits

As discussed in Note 10, BTES is self-insured for employee group health benefits. BTES also provides these benefits to certain retired employees, although not required by any statutory, contractual or other authority. As of June 30, 2005, there were 21 retirees eligible to receive these benefits. Benefits related to these retirees are expensed when paid and totaled approximately \$75,000 in 2005 and \$63,000 in 2004.

Additionally, BTES is self-insured for certain life insurance benefits for retirees. Employees who retire with 30 years of service or age 60 with a minimum of 20 years of service receive \$5,000 in life insurance for annual salaries less than \$10,000 plus \$1,000 in life insurance for each additional \$5,000 of annual salary or fraction thereof. As of June 30, 2005, there were 11 retirees eligible to receive these benefits and, accordingly, a liability for \$117,250 has been recorded for these benefits. BTES made no payments in 2005 and \$5,000 in payments during 2004 related to these benefits.

14. Commitments

As of June 30, 2005, BTES has committed to purchase approximately \$16,594,000 of equipment and supplies related to construction.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2005 and 2004

15. Cable and Internet Business Unit Activities

As discussed in Note 1, during 2005 BTES formed the CBU. As of June 30, 2005, BTES had not yet begun operations of the CBU; however, they were in the process of obtaining property and equipment to be used in the operations. Accordingly, BTES has recorded \$1,184,065 in construction in progress and accounts payable for the CBU as of June 30, 2005.

16. Subsequent Bond Issuance

On July 27, 2005 BTES issued \$23,910,000 in Electric System Revenue Bonds, Series 2005 for the purpose of financing improvements to BTES' electric system and pre-purchasing electrical power from TVA. The bonds were issued with a 30-year maturity and are payable in annual installments ranging from \$440,000 to \$1,450,000 beginning September 1, 2007 through September 1, 2035. Bonds maturing on or after September 1, 2016 are callable at par at any time in any amount on or after September 1, 2015. Bonds maturing on September 1, 2018, 2020, 2022, 2024, 2027, 2029, 2033 and 2035 are subject to mandatory sinking fund redemption at par. Interest is payable semi-annually on March 1 and September 1, beginning September 1, 2005 at rates ranging from 3.5% to 5%. The bonds are limited obligations of BTES payable solely from the net revenues of BTES' electric system.

The following sets forth BTES' debt service requirements related to the bond issue:

Fiscal Year	Principal	Interest	Total
2006	\$ —	\$ 627,198	\$ 627,198
2007	—	1,055,100	1,055,100
2008	440,000	1,047,400	1,487,400
2009	455,000	1,031,738	1,486,738
2010	470,000	1,015,550	1,485,550
2011-2015	2,605,000	4,820,434	7,425,434
2016-2020	3,145,000	4,286,282	7,431,282
2021-2025	4,000,000	3,430,726	7,430,726
2026-2030	5,030,000	2,405,279	7,435,279
2031-2035	6,315,000	1,116,516	7,431,516
2036	1,450,000	36,250	1,486,250
	\$23,910,000	\$20,872,473	\$44,782,473

Bristol Tennessee Essential Services

Statement of Revenues and Expenses (Last Ten Years)

Fiscal Years 2005-1996 (in thousands)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Operating revenues.										
Residential	\$27,475	\$28,368	\$26,699	\$24,746	\$25,877	\$24,212	\$23,575	\$23,408	\$21,993	\$23,971
Commercial	3,936	3,888	3,621	3,373	3,562	3,442	3,408	3,280	3,065	3,209
Industrial	22,524	22,143	20,072	19,006	19,650	18,953	19,224	17,814	16,619	16,626
Street and outdoor lighting	965	911	855	852	919	844	832	815	775	734
Other revenues	2,424	2,448	2,100	2,018	2,023	1,919	1,844	1,807	1,648	1,698
Total operating revenues	57,324	57,758	53,347	49,995	52,031	49,370	48,883	47,124	44,100	46,238
Power purchased from Tennessee Valley Authority	47,006	48,328	44,701	41,631	43,630	41,265	40,913	39,373	36,470	38,613
Gross profit	10,318	9,430	8,646	8,364	8,401	8,105	7,970	7,751	7,630	7,625
Operating expenses:										
Operation expenses	2,829	2,743	2,599	2,412	2,339	2,213	2,128	1,975	1,955	1,917
Maintenance	2,560	2,635	2,533	2,319	2,275	2,212	2,137	2,267	2,060	2,030
Depreciation	1,938	1,898	1,960	1,918	1,863	1,814	1,765	1,655	1,390	1,308
Tax equivalents	214	212	206	195	857	868	913	888	858	845
Social security taxes	224	206	213	193	162	158	156	156	161	159
Interest on customer deposits	8	6	6	11	19	19	17	17	17	16
Total operating expenses	7,773	7,700	7,517	7,048	7,515	7,284	7,116	6,958	6,441	6,275
Operating income	2,545	1,730	1,129	1,316	886	821	854	793	1,189	1,350
Nonoperating revenue--interest income	892	628	587	591	1,355	1,071	918	816	875	828
Income before transfers	3,437	2,358	1,716	1,907	2,241	1,892	1,772	1,609	2,064	2,178
Transfers out--tax equivalents to the City of Bristol, Tennessee	(361)	(700)	(606)	(666)	-	-	-	-	-	-
Change in net assets	\$ 3,076	\$ 1,658	\$ 1,110	\$ 1,241	\$ 2,241	\$ 1,892	\$ 1,772	\$ 1,609	\$ 2,064	\$ 2,178

Bristol Tennessee Essential Services

Purchased Power, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2005-1996

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Purchased power from Tennessee Valley Authority (megawatt hours)	1,003,918	1,014,411	997,525	935,485	961,853	918,151	919,696	913,322	882,682	914,989
Consumption (megawatt hours).										
Residential	454,880	468,611	469,302	432,282	456,277	425,639	416,726	419,346	403,494	441,725
Commercial	53,642	53,344	54,335	49,880	52,200	51,351	51,337	50,391	49,241	51,811
Industrial	451,031	437,853	412,832	398,728	396,534	388,268	399,571	393,905	380,019	366,151
Street and athletic	6,455	5,164	5,255	5,209	5,086	4,973	4,936	4,908	4,783	4,506
Outdoor lighting	4,105	4,139	4,211	4,221	4,297	4,359	4,346	4,340	4,311	4,221
Internal use	-	-	-	-	-	-	843	901	887	952
Total consumption	970,113	969,111	945,935	890,320	914,394	874,590	877,759	873,791	842,735	869,366
Line losses and megawatt hours unaccounted for	33,805	45,300	51,590	45,165	47,459	43,561	41,937	39,531	39,947	45,623
Percentage of line losses and megawatt hours unaccounted for to purchased power	3.37%	4.47%	5.17%	4.83%	4.93%	4.74%	4.56%	4.33%	4.53%	4.99%
Active service (number of customers):										
Residential	27,760	27,650	27,458	27,360	27,234	26,951	26,603	26,315	25,978	25,630
Commercial	3,425	3,332	3,291	3,304	3,229	3,241	3,144	3,130	3,095	3,057
Industrial	609	614	591	588	584	551	543	536	510	503
Street and athletic	41	41	41	38	38	38	29	28	28	28
Outdoor lighting	160	161	160	158	161	161	155	157	158	154
	31,995	31,798	31,541	31,448	31,246	30,942	30,474	30,166	29,769	29,372

Bristol Tennessee Essential Services
Schedule of Property, Casualty and Other Insurance (Unaudited)
June 30, 2005

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Theft, disappearance and destruction	\$ 240,000	\$ -	12/04/04 to 12/04/05	Cincinnati Ins Co
Workers' compensation	500,000	-	12/04/04 to 12/04/05	Cincinnati Ins. Co
General liability:		0 to 1,000	12/04/04 to 12/04/05	Cincinnati Ins Co
Products-completed operations aggregate	2,000,000			
Personal and advertising injury	1,000,000			
Each occurrence	1,000,000			
Fire damage (any one fire)	100,000			
Medical expense (any one person)	5,000			
Employee benefits				
Each claim	1,000,000			
Aggregate	3,000,000			
Automobile policy		100 to 1,000	12/04/04 to 12/04/05	Cincinnati Ins. Co.
Liability	1,000,000			
Comprehensive	Actual Cash Value			
Uninsured motorist	1,000,000			
Collision	Actual Cash Value			
Medical payments	5,000 per person			
Commercial umbrella liability	20,000,000	-	12/04/04 to 12/04/05	Cincinnati Ins Co.
Fire, extended coverage & vandalism and malicious mischief		10,000	12/04/04 to 12/04/05	Cincinnati Ins Co
On premise property	22,050,468			
Off premise property	250,000			
Scheduled property floater:				
Flood	2,000,000	25,000	12/05/03 to 12/04/04	Cincinnati Ins Co.
Earthquake	10,000,000	500,000		
Directors & officers liability	10,000,000	0 to 10,000	04/28/05 to 04/28/06	Cincinnati Ins Co

Bristol Tennessee Essential Services
Schedule of Property, Casualty and Other Insurance (Unaudited) (continued)
June 30, 2005

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Boiler & machinery policy	\$ 500,000	\$5,000 to 50,000	12/04/04 to 12/04/05	Cincinnati Ins Co
Employee dishonesty	500,000	1,000	12/04/04 to 12/04/05	Cincinnati Ins Co.
Electronic data processing equipment and media	628,303	1,000	12/04/04 to 12/04/05	Cincinnati Ins Co
Mobile property - machinery	621,126	250	12/04/04 to 12/04/05	Cincinnati Ins Co.
Employment related practices liability.		2,500	12/04/04 to 12/04/05	Cincinnati Ins Co
Each insured event limit	1,000,000			
Total limit	1,000,000			

Bristol Tennessee Essential Services
Schedule of Electric Rates (Unaudited)
June 30, 2005

Single Family Dwelling Customers

Base Charges:

Customer charge:

\$6.29 per month

Energy charge:

First 1,000 kilowatt hours per month at 5.374 cents per kilowatt hour

Excess over 1,000 kilowatt hours per month at 5.918 per kilowatt hour

Commercial, Industrial, Governmental and Institutional Customers

Base charges.

1. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kilowatts and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kilowatt hours:

Customer charge:

\$14.00 per delivery point per month

Energy charge:

6.240 cents per kilowatt hour per month

2. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is greater than 50 kilowatts but not more than 1,000 kilowatts or (b) the customer's billing demand is less than 50 kilowatts and its energy takings for any month during such period exceed 15,000 kilowatt hours:

Customer charge:

\$25.00 per delivery point per month

Demand charge:

First 50 kilowatts of billing demand per month, no charge

Excess over 50 kilowatts of billing demand per month at \$8.56 per kilowatt, plus an additional \$8.56 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 50 kilowatts or contract demand

Energy charge:

First 15,000 kilowatt hours per month at 6.194 cents per kilowatt hour

Excess over 15,000 kilowatt hours per month at 3.420 cents per kilowatt hour

Bristol Tennessee Essential Services
Schedule of Electric Rates (Unaudited) (continued)
June 30, 2005

3. If (a) the higher of the customer's currently effective contract demand, if any, or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kilowatts, but not more than 5,000 kilowatts:

Customer charge:

\$25 00 per delivery point per month

Demand charge:

First 1,000 kilowatts of billing demand per month at \$8 56 per kilowatt hour

Excess over 1,000 kilowatts of billing demand per month at \$10 06 per kilowatt, plus an additional \$10.06 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 1,000 kilowatts or its contract demand:

Energy charge:

3.420 cents per kilowatt hour per month

4. If the customer's contract demand is greater than 5,000 kilowatts, but not more than 15,000 kilowatts:

Customer charge:

\$1,500.00 per delivery point per month

Demand charge:

\$10.96 per kilowatt of billing demand per month, plus an additional \$10.96 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand

Energy charge:

3.035 cents per kilowatt hour for up to 620 hours use of metered demand per month

2.477 cents per kilowatt hour for all additional kilowatt hours per month

5. If the customer's contract demand is greater than 15,000 kilowatts, but not more than 25,000 kilowatts:

Customer charge:

\$1,500.00 per delivery point per month

Demand charge:

\$11 07 per kilowatt of billing demand per month, plus an additional \$11.07 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand

Energy charge:

3.035 cents per kilowatt hour for up to 620 hours use of metered demand per month

2.477 cents per kilowatt hour for all additional kilowatt hours per month

STATISTICS - JUNE 2005

Bristol Tennessee Essential Services

2470 Volunteer Parkway, Bristol, TN 37620

P. O Box 549, Bristol, TN 37621

Telephone 423-968-1526

FAX Number: 423-793-5545

Power Outage Number 423-968-BTES (968-2837)

Total Full-Time Employees 60

Part-Time Employees* (students, etc.) 5

*Additional students are utilized in the summer and during school breaks.

Miles of Line 1,226

Miles of Fiber Optic Cable 69.8

NUMBER OF CUSTOMERS

Large General Power (>50 kW)..... 609

Small General Power (<50 kW).....3,425

Residential 27,760

Street and Outdoor Lighting 201

Total**31,995**

Employees/1000 Customers**1.9**

LARGEST CUSTOMERS (IN ORDER OF KWH USAGE)

- | | |
|---------------------------------|-------------------------|
| 1. Exide Corporation | 7. Amerace Corporation |
| 2. City of Bristol, Tennessee | 8. Bristol Metals, Inc. |
| 3. Modern Forge of Tennessee | 9. Royal Mouldings |
| 4. WellmontBRMC | 10. Seaman Corporation |
| 5. GlaxoSmithKline Laboratories | 11. King College |
| 6. King Pharmaceuticals | 12. Wal-Mart |

Note: Bristol Motor Speedway has the third largest peak kW demand of any customer during the August race.

**BRISTOL TENNESSEE ELECTRIC SYSTEM
CLIMATOLOGICAL DATA
FISCAL YEARS 2005-1995**

Fiscal Year	Heating Degree Days *	Cooling Degree Days *
2005	4222	1068
2004	4141	1027
2003	4064	1132
2002	3921	1189
2001	4539	933
2000	4019	1082
1999	4312	951
1998	4142	904
1997	4446	749
1996	5007	1173
1995	3780	936

SOURCE: U.S. Department of Commerce, National Oceanic and
Atmospheric Administration

* Degree Day is a unit of measuring the extent to which the outdoor mean temperature falls below (heating) or rises above (cooling) the base of 65 degrees Fahrenheit. One degree day is counted for each degree of deficiency below (heating) or excess over (cooling) the base, for each calendar day on which such deficiency of excess occurs

**BRISTOL TENNESSEE ELECTRIC SYSTEM
DEMOGRAPHIC AND ECONOMIC STATISTICS
TRI-CITIES, TENNESSEE-VIRGINIA MSA
CALENDAR YEARS 2004-1995**

Calendar Year	Population	Per Capita Income	Median Age	Unemployment Rate
2004	479,830	\$25,299	39.6	4.8%
2003	485,884	\$23,878	39.2	5.9%
2002	485,300	\$22,302	40.2	5.3%
2001	484,900	\$22,302	39.7	5.0%
2000	480,091	\$22,119	39.7	4.5%
1999	465,700	\$21,201	39.4	4.4%
1998	464,900	\$19,896	39.1	4.4%
1997	459,963	\$19,503	37.6	4.1%
1996	458,229	\$18,932	37.8	4.7%
1995	454,056	\$18,582	38.1	5.3%

Information obtained from First Tennessee Development District.

Information for 2005 is not available.



Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Power Board
Bristol Tennessee Essential Services

We have audited the financial statements of the Bristol Tennessee Essential Services ("BTES"), formerly Bristol Tennessee Electric System, an enterprise fund of the City of Bristol, Tennessee, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BTES' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BTES' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Power Board, management and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Coulter & Justus, P.C.

September 28, 2005