

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**April 24, 2007**

**IN RE:**

**PETITION OF LYNWOOD UTILITY  
CORPORATION FOR EXEMPTION FROM  
FILING PROOF OF FINANCIAL SECURITY AS  
REQUIRED BY RULE 1220-4-13-.07(2) OR, IN THE  
ALTERNATIVE, TO APPROVE ANOTHER TYPE  
OF SECURITY OR SECURITY AMOUNT**

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**DOCKET NO.  
06-00139**

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**ORDER GRANTING ALTERNATIVE FINANCIAL SECURITY**

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This matter came before Chairman Sara Kyle, Director Pat Miller and Director Ron Jones of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on January 8, 2007 upon the *Memorandum* of Lynwood Utility Corporation (“Lynwood” or the “Company”) requesting approval of its proposal for an alternate form of financial security pursuant to TRA Rule 1220-4-13-.07.<sup>1</sup>

**THE MEMORANDUM PROPOSAL**

On June 12, 2006, at a regularly scheduled Authority Conference, the panel voted unanimously to deny the *Petition* of Lynwood Utility Corporation for exemption from the filing proof of financial security as required by Rule 1220-4-13-.07(2), and ordered the Company to confer with the Authority Staff to develop a proposed alternative financial

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<sup>1</sup> The Authority promulgated public necessity rules for wastewater, effective December 29, 2005 through June 12, 2006. The permanent TRA Rules 1220-4-13 became effective on June 12, 2006.

security to submit to the Authority for approval in accordance with Tenn. Comp. R. & Regs. 1220-4-13-.07(5).

Following the panel's denial of the *Petition*, as ordered, the Company engaged in discussions with the Authority Staff regarding what would constitute an appropriate alternative form of financial security. On November 6, 2006, a *Memorandum* was filed with the Authority advising that due to the financial condition of Lynwood, neither a Surety Bond nor an Irrevocable Letter of Credit, in any monetary amount, was able to be secured in the Company's name, as required by Tenn. Comp. R. & Regs. 1220-4-13-.07 and .08. Additionally, the *Memorandum* set forth a proposal for filing an alternative form of financial security in accordance with Tenn. Comp. R. & Regs. 1220-4-13-.07(5). The Company's proposal for an alternative financial security was that, (1) Lynwood would establish an escrow account in the amount of \$20,000, funded by the owners of the Company, which provides that the funds from the account shall be disbursed to the Authority or its designee in the event that an order pursuant to TRA Rule 1220-4-13-.09 is issued; and, (2) Lynwood will amend its existing billing and collection agreements with the City of Franklin, Tennessee and with H.B. & T.S. Utility District to direct disbursement of all funds collected from Lynwood customers to the Authority or its designee to continue operation of the utility in the event that the Authority takes action pursuant to TRA Rule 1220-4-13-.09.

Furthermore, in its *Memorandum*, the Company stated that their proposal for an alternative form of financial security is in the public interest because although its current financial condition will not permit Lynwood to obtain a bond or a letter of credit, the Company has been in continuous operation since the issuance of its original Certificate of

Public Convenience and Necessity (“CCN”) in 1976, and there is no evidence that it will fail to continue to be an on-going concern in the future. Additionally, the owners of Lynwood have a substantial financial interest in the continued viability the Company, particularly in light of a sizeable indebtedness owed by Lynwood to another company also owned by the owners of Lynwood. Finally, the Company asserts that the Authority and public can be assured that in the event the current owners of Lynwood are unable or unwilling to operate the Lynwood utility, Lynwood’s monthly revenues can be transferred to the Authority for its continued operation because the Company’s monthly revenues are collected by two governmental entities and can be assigned to the Authority.

**JANUARY 8, 2007 AUTHORITY CONFERENCE**

At a regularly scheduled Authority Conference, a hearing was convened to determine the amount of the financial security and whether the proposed security serves the public interest, as required by Tenn. Comp. R. & Regs. 1220-4-13-.07(5). During deliberations, the panel questioned the Company’s counsel, who after consulting with his client, agreed to obtain a personal irrevocable letter of credit in the amount of \$20,000. The personal letter of credit will be lieu of the security required by Tenn. Comp. R. & Regs. 1220-4-13-.07(2)(a). Additionally, the Company’s billing and collection agreements will be amended to incorporate a provision that in the event the Authority takes action pursuant to TRA Rule 1220-4-13-.09, all funds collected from Lynwood customers will be assigned to the Authority or its designee to continue operation of the utility.

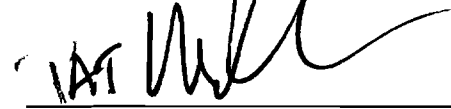
In light of the significant monetary investment the owners of the Company have made in the property, and the pending rate case, wherein the Authority may closely examine the financial condition of the Company, the panel found that the Company had met its burden of demonstrating both that the alternative financial security satisfies the

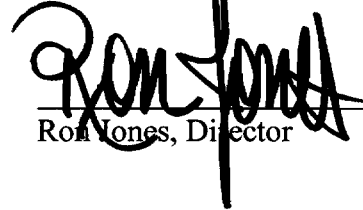
Authority's rules and is in the public interest. The panel, therefore, voted unanimously to grant the Lynwood proposal for an alternative form of financial security, with modification, pursuant to Tenn. Comp. R. & Regs. 1220-4-13-.07(5).

**IT IS THEREFORE ORDERED THAT:**

The proposal of Lynwood Utility Corporation for an alternative form of financial security in accordance with TRA Rule 1220-4-13-.07(5), as described in its *Memorandum* and discussed herein, is granted.

  
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Sara Kyle, Chairman

  
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Pat Miller, Director

  
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Ron Jones, Director